Required Report - public distribution

Date: 4/15/2016
GAIN Report Number:

Colombia

Sugar Annual

2016

Approved By:
Michael Conlon, Agricultural Counselor

Prepared By:
Anthony J. Gilbert, Agricultural Attaché
Moises Huerta, Agricultural Specialist

Report Highlights:
Colombian sugar production in marketing year (MY) 2015/2016 is expected to reach to 2.3 million metric tons (MT). Post estimates sugar exports to reach 790,000 MT in MY 2015/16, down seven percent from the previous year. In calendar year (CY) 2015, Colombia filled the 52,250 MT export quota under the U.S.-Colombia Trade Promotion Agreement (CTPA).

Executive Summary:

Colombian sugar production is expected to reach 2.3 million MT in MY 2015/16, a slight decrease from MY 2014/15, but considerably higher than the production levels experienced during and after the excessive rains in 2011 and 2012. Production continues to reach historical averages. In addition, sugar cane yields have increased due to good weather. The Cauca river valley in southwest Colombia is the primary growing region for cane sugar with the area in production at almost full capacity with little land for expansion. The increases in productivity are the outcome of technology improvements and better weather. Ethanol productive capacity expanded by the end of 2015 after three years of delays in opening new ethanol distilleries. Sugar exports will drop seven percent to 790,000 MT in MY 2015/16; furthermore Colombian sugar exports are forecast to fall 11% to reach 703,000 MT in MY 2016/17, primarily as a result of increased ethanol production levels to meet the domestic blend mandate. The quota for 2015 under the CTPA was 52,250 MT for Colombian raw sugar equivalent and will increase to 53,000 MT for CY 2016.

Commodities:

Sugar, Centrifugal

Production:

In MY 2015/16, Post projects that sugar production will fall to 2.3 million MT, about four percent lower than the previous year. Colombian sugarcane production continues to recover from 2011 and 2012 as weather improves and longer daylight increases the sucrose content of the cane. The dry conditions experienced in Colombia as a result of "El Niño" had a positive effect on sugar cane productivity. Replanted sugar cane areas damaged from the excessive rains of 2011 and 2012 continue to enter into production and, along with better weather, will boost production levels.

Weather has been excellent since 2013 for sugarcane production. As a result, the sucrose content of sugar cane has improved with yields increasing from 11 to 11.8 tons of refined sugar per ton of sugar cane. In addition, around 5,000 hectares of new sugar cane area planted were cultivated in the northeastern area of the Cauca river valley. New areas planted are taking advantage of innovative seed and other technological improvements developed by the Colombian Sugar Industry Research Center (CENICAÑA), in particular applying new seed varieties that are better adapted to climate change and weather volatility.

Post estimates that cane sugar yields will remain as favorable weather continues; however, a recently constructed ethanol distillery is expected to further reduce the amount of cane for refined sugar production. Post, therefore, estimates that sugar production will grow slightly to reach 2,318,000 MT in MY 2016/2017.

Colombian sugar cane is harvested year-round with a continuous process of harvesting, milling and ethanol distilling. Cane sugar production and processing are heavily concentrated in the Cauca river valley due to the appropriate climate and the density of mills and distilleries which support economies of scale over other regions of Colombia. In the Cauca river valley alone there are 13 mills and five ethanol distilleries.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area with the rest of the land idle as part of a land management strategy. There are about 230,000 hectares of cane sugar area planted in the Cauca river valley, which is close to the total area available that can be planted. The Cauca river valley is one of the most efficient sugarcane producing regions in South America, yielding on average approximately 120 MT per hectare.

The Colombian sugar industry is highly vertically integrated with only a few companies managing all the sugar cane production and processing for ethanol, power generation and the food industry. In 2005, distilleries began producing ethanol, impacting sugar production and distribution to local and external markets. Domestic ethanol demand has offset sugar exports significantly, about 40 percent annually since 2006. In 2014, ethanol production reached 406 million liters and plant capacity remained at approximately 1.3 million liters per day.

Non-Centrifugal Sugar:
Colombia is the second largest non-centrifugal sugar producer known as Panela in the world after India, according to the United Nations Food and Agriculture Organization (FAO). There are an estimated 70 thousand Panela farmers with 80 percent of production occurring on farms of less than 5 hectares. The Panela sector employs approximately 120 thousand subsistence farmers throughout Colombia with dispersed areas of production and thousands of low technology crushing/milling facilities. In CY 2014, Colombian non-centrifugal sugar production reached 1.4 million MT, a 15 percent increase from the previous year.

Consumption:
In MY 2015/16, Colombian sugar consumption is estimated at 1.63 million MT, a three percent increase from the year before. Consumption is driven by demand from the confectionary sector to satisfy increased exports of processed food products. Sugar mills prefer the Colombian refined sugar because of higher prices and higher returns compared to raw sugar. Raw sugar is mainly exported to foreign markets to satisfy the U.S. sugar quota and demand in Europe. For panela, Colombian annual per capita consumption is estimated at 55 pounds (25 kilograms), the highest in the world according to the FAO.

Trade:
Colombia is a net exporter of sugar. Exports of sugar are sensitive to international prices and to domestic increases in ethanol production. International prices fell in 2013 for the second consecutive year motivating the sugar industry to focus on supplying the domestic market given the stronger relative price. Post estimates that in MY 2015/16 domestic demand will continue to absorb production and any excess will be exported. Post estimates that exports will fall to 790,000 MT for MY 2015/16 and also forecasts that exports will further fall to 703,000 MT in MY 2016/17 as cane sugar is diverted to ethanol production to supply the new distillery.

In MY 2014/2015, Peru was the top destination for Colombian sugar exports with around 30% market share. The next largest markets for Colombian sugar are Chile, Haiti and the United States.

Colombia is able to export sugar to the United States under both the World Trade Organization (WTO) and CTPA quotas. The WTO quota in MY 2015/2016 was 31,559 MT. In CY 2015, the CTPA quota was 52,250 MT. In MY 2015/2016, post estimates that Colombia will fill the 31,559 MT WTO quota. As well, in CY 2016, Colombia will likely fill the CTPA quota of 53,000 MT.

Colombia's sugar imports reached 130,000 MT in MY 2014/15. Post estimates that imports will reach 150,000 MT in MY 2015/16, and will continue to grow to reach 188,000 MT in MY 2016/2017. In MY 2014/2015, Peru and Brazil made up 99% of total Colombian imports. Sugar imports from Peru enter duty free under trade preferences with the Andean Community of Nations (CAN). Brazil is subject to a lower duty under a regional trade pact, the Latin American Integration Association.

Stocks:
Colombia produces sugar year-round and is able to meet domestic demand without supply disruptions. There are no Colombian government programs or incentives for sugar mills to hold inventories. According to Post contacts, mills can hold stocks for a short timeframe to meet more immediate processing needs. Private sector sugar inventories for both domestic and export markets are projected to reach 250,000 MT in MY 2015/16. In MY 2016/17, Post forecasts ending inventories to fall to 190,000 MT due to increasing ethanol production.

Policy:
Sugar Price Stabilization Fund (PSF)
Colombia is a net exporter of sugar with production satisfying both domestic sugar demand and raw cane for ethanol distilling. The PSF mechanism was established in 2001 to avoid oversupply and low prices in the domestic sugar market. Given thin margins for sugar mills, low prices would create an economic burden to milling operations. The PSF provides incentives for sugar exports by hedging against domestic and international market price differentials, setting a market weighted average price (MWAP). Historically, domestic sugar prices are higher than export prices (except for U.S. export prices under quota). Milling operations that sell sugar at prices above the MWAP, or typically the domestic market, will contribute the difference to the PSF. Those that sell sugar at prices below the MWAP, on the other hand, will receive the difference in compensation from the PSF.

Price Band
Sugar imports from CAN countries are allowed duty-free entry into Colombia. Imports from outside the CAN are subject to a variable duty under the price band system. The basic duty rate on imports of raw and refined sugar from non-CAN countries is 15 percent.

The CAN revises the price band, both ceiling and floor, every April. The duty adjustment is made based on whether a reference price is above, below or within the ceiling and floor price. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the sugar import duty is set at a 15 percent of the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. When the reference price exceeds the ceiling price, however, a reduction is made to the applied duty rate based upon the difference between the reference and the ceiling price.

The CAN price band from the period of April to March 2016/17 is illustrated below:

CAN Price Band April 2016 to March 2017		
	Floor Price	***Ceiling Price***

	USD per ton April / March		*USD per ton April / March*	
	2015/16	**2016/17**	**2015/16**	**2016/17**
Raw Sugar	$518	$475	$640	$612
Refined Sugar	$630	$576	$755	$721
Source: CAN				

For both raw and refined sugar, the reference prices are below the floor price, so an additional variable duty is added to the basic duty.

Anti-competitive Practices

In 2015, Colombia's commercial regulatory authority, the Superintendency for Industry and Commerce, fined 14 domestic sugar producers $122 million due to anti-competitive practices. This came after formal complaints presented by domestic and large international food and beverages processors based in Colombia. After years of investigation, the SIC, concluded that these companies "deliberately conceived and executed a strategy that was anti-competitive, illegal, coordinated and prolonged, aimed at blocking sugar imports to Colombia, to avoid an increase in supply and reduced internal prices paid by consumers and the industry."

CTPA

On May 15, 2012, the CTPA went into force. The CTPA eliminated the price band duty for imports from the United States. For 2016, the current Tariff-Rate-Quota for glucose, which includes high-fructose corn syrup, is 12,763 MT and will continue to increase 5% annually. As well, the import duty beyond quota will be reduced from the initial 28% at 2.8% annually as part of a 10-year phase-out period. In 2016, the duty on out-of-quota glucose imports from the United States is 14 percent.

CAN and Southern Common Market (MERCOSUR)

CAN members (Peru, Ecuador and Bolivia) have duty free access to Colombia's sugar market. Under the Colombia/MERCOSUR free trade agreement, which began in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant trade preferences under previous bilateral agreements, such as LAIA, where MERCOSUR members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina (66%), Brazil (66%), Paraguay (49%), and Uruguay (60%).

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	**2014/2015**		**2015/2016**		**2016/2017**	
	Market Year Begin: Oct 2014		**Market Year Begin: Oct 2015**		**Market Year Begin: Oct 2016**	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	150	195	200	250		225

Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,350	2,350	2,250	2,250		2,318
Total Sugar Production	2,350	2,350	2,250	2,250		2,318
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	130	130	150	150		188
Total Imports	130	130	150	150		188
Total Supply	2,630	2,675	2,600	2,650		2,731
Raw Exports	175	140	140	140		150
Refined Exp.(Raw Val)	670	670	650	650		553
Total Exports	845	810	790	790		703
Human Dom. Consumption	1,580	1,610	1,605	1,630		1,712
Other Disappearance	5	5	5	5		5
Total Use	1,585	1,615	1,610	1,635		1,717
Ending Stocks	200	250	200	225		191
Total Distribution	2,630	2,675	2,600	2,650		2,731