

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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El Salvador

Sugar Annual

Enter a Descriptive Report Name

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Report Highlights:

Sugarcane planted area in 2009/10 remains at the same level as in 2008/09-63,000 hectares. The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year (MY) 2009 most sugar exports were destined for the Russia Federation, Taiwan and to the U.S. re-export market. Record high international prices are providing financial relief to the sugar sector. The sector continues to get tariff protection by the Government of El Salvador (GOES). The Ministry of Agriculture (MAG) continues efforts to shift traditional agricultural production into more profitable non-traditional export crops. The GOES and the sugar industry have agreed on a 10 percent mixing ratio for ethanol and gasoline. The law for production of alternative fuels, including ethanol, is under discussion by the current administration.

Executive Summary:

Higher yielding sugarcane varieties, diversification of the industry into the production of energy and alcohol/ethanol, investment in milling equipment to improve sugar yields, additional access to the U.S. market due to CAFTA-DR and stable international prices all augur well for El Salvador's sugar industry over the next 3 to 5 years. A National Sugar Law for commercialization, production and distribution of sugar is an important component to the reengineering process that the industry has undergone. In addition, assisted by record prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters such as tropical storm Ida and lack of government policies to assist sugarcane growers. Ultimately, however, the success of the industry will depend on compliance with the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and ethanol production.

Sugarcane production for the 2009/10 harvest is estimated at 4.6 million metric tons (MT). Production for 2008/09 has been decreased to 4.44 million MT based on new data provided by CONSAA.

Sugar production for 2009/10 is estimated at 548,000 MT. Sugar production for 2010/11 is expected to increase slightly due to additional investment, especially fertilizers, which will boost farm level sugarcane productivity. Also, weather conditions will continue to play a major role in future production. Weather patterns have become erratic due to global warming and the possibility of the natural phenomenon El Niño occurring in 2010/11 poses a threat to sugarcane production. New data provided by CONSAA show exports reaching 318,000 MT in MY2009 and are estimated at 301,000 MT for MY2010.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is \$ 0.33 per pound plus a 13 percent value-added-tax. Lower fertilizer and other input costs could play a major role in future sugar production. El Salvador is already capitalizing on a CAFTA-DR 6.6 million duty free ethanol quota that will grow annually until it reaches 25 million gallons in 2020.

El Salvador together with the rest of Central America is currently negotiating a trade association agreement with the European Union (EU) that could provide access to up to 100,000 MT duty free to this region. Also the region is negotiating a free trade agreement with Canada that could benefit the sugar industry.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador show that the 2009/10 sugarcane harvest is expected to reach 4.6 million MT. Sugar production is estimated to be 548,000 MT in 2009/10.

Overall, the local sugar industry has been working hard to control sugarcane burning during harvest, to create new sugarcane varieties that are more resistant to pests and diseases, and to increase investments in the sugar milling process. Thus, sugar recovery yields which are estimated at 120 kilograms per MT in the 2009/10 season are expected to continue a positive trend for the 2010/11 harvest. Sugar production is expected to remain at similar levels in 2010/11 reaching approximately 552,000 MT.

Area planted remained stable at 63,000 hectares (has.) during 2009/10, mainly due the delay in the implementation of the ethanol production law. If the country approves this law, there is ample idle land in the country that can be devoted to increased sugarcane production. The GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops such as tropical fruits.

Grower prices continue to be set according to the sugar content of the cane. According to the Sugar Law, producers are to receive 54.5 percent of total sugar sales, with the rest appropriated by sugar mills. Sugar mills distribute this sales income among sugar producers. Continued investment on the part of all sugar mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills continue to undergo financial restructuring and in some cases, are being monitored by financial institutions that want their loans to be honored.

Consumption: Increased consumption by the candy and juice industry continues to provide stability to internal consumption numbers. Domestic consumption reached 240,000 MT in 2009/10. Higher exports of these products, mainly due to CAFTA-DR, could contribute to increased consumption in the medium term. Post estimates 2010/2011 consumption at 243,000 MT. However, in 2010/11, consumption numbers will ultimately depend on how the international crisis continues to affect the Salvadoran economy.

Trade:

Exports for 2009/10 are expected to reach 301,000 MT, a 9,000 MT decrease compared to the previous Post estimate. The export forecast for 2010/11 is 307,000 MT.

The GOES continues to impose a 40 percent import tariff on all sugar. The bound rate on sugar is 70 percent ad-valorem. The GOES considers sugar politically sensitive because it offers large rural employment and for that reason, the GOES provides tariff protection. CAFTA-DR has spurred regional tariff harmonization to avoid triangulations and market disruptions. However, the Central American region still has not agreed on a harmonized import tariff for sugar.

The Russian Federation and the U.S. re-export market are major destinations for Salvadoran sugar exports. In MY2009, 65,400 MT were exported to the Russian Federation and approximately 97,700 MT to the U.S. re-export market. Also some new markets include Taiwan with 33,566 MT and Indonesia with 25,740 MT. Export destinations for 2010 are expected to be similar to 2009. El Salvador's Tariff-Rate-Quota for MY2009 was 27,379 MT and for 2010 is 27,379 plus a re-allocation of 2,255 MT.

El Salvador's CAFTA-DR quota sugar exports were 28,000 MT in MY2009 and are estimated at 28,560 MT for MY2010. CAFTA-DR has also increased industrial sugar consumption in El Salvador because sugar-containing products such as candy and juices have immediate duty-free access to the U.S. market.

Export Trade Matrix El Salvador Centrifugal Sugar			
Time Period	MY	Units:	MT
Exports for:	2009		2010
U.S.	54,200	U.S.	53,008
Others		Others	
USA re-export	97,700	USA re-export	65,000
Russian Federation	65,400	Canada	97,562

Taiwan	33,566	Croatia	22,440
Indonesia	25,740	Dominican Republic	12,000
Canada	23,100		
Chile	14,011		
Total for Others	259,517		197,002
Others not Listed	3,906		50,996
Grand Total	317,623		301,006

Source: CONSAA and USDA/FAS.

Stocks:

Ending stock levels in 2009/10 are estimated at 13,000 MT. Contraband sugar coming from neighboring Guatemala is under control and is no longer causing a disruption to the local market. The Sugar Law states that all sugar sold locally must carry a safety seal provided by CONSAA. Stock levels are expected to increase by approximately 2,000 MT in 2010/11.

Policy:

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A to reduce blindness in the local population. Both producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector, but continues to provide tariff protection. Sugarcane growers continue to benefit from a program that the GOES has provided to the agricultural sector. This program is called FINSAGRO and offers loans at a 6 percent interest rate to assist farmers to pay back arrears and have access to fresh working capital. Continued government assistance to the ailing coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs.

Under the Sugar Law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from the government, sugar producers and sugar mills.

The GOES and the sugar industry have agreed on a 10 percent mix ratio for ethanol and gasoline. The previous GOES administration started revising a law for production of alternative fuels, including ethanol. A decision on this new law is now expected to be passed on to the new GOES administration that took office on June 1, 2009. CAFTA-DR provides El Salvador with a 6.6 million duty-free ethanol quota (produced from imported feedstock) that will grow annually until it reaches 25 million gallons in 2020. U.S., Brazilian and local investors have established a \$10.0 million ethanol dehydration plant with a 60 million gallon annual capacity. La Cabaña sugar mill is the only mill that has ethanol production capability at this time. The selection of El Salvador for a joint U.S.-Brazil effort to expand ethanol production has stirred interest by other mills and new investors. The GOES is working on a project financed by the Inter-American Development Bank (IDB) to design a national ethanol production plan.

The following are some of the areas where the sugar industry continues working to improve sugar profitability:

- Production of only the amount of sugar that can be sold at profitable prices;
- Maintenance or improvement of milling yields;
- Diversification of mill incomes by focusing on alcohol/ethanol production and energy generation;

- Continuation of controls over the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality;
- Exchange of research and technology development information with other sugar producing countries;
- Introduction of new varieties that are pest and disease resistant.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal El Salvador	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	
Area Planted	0		63		63			63	
Area Harvested	0		61		61			61	
Production	0		4,446		4,628			4,650	
Total Supply	0		4,446		4,628			4,650	
Utilization for Sugar	0		4,446		4,628			4,650	
Utilization for Alcohol	0		0		0			0	
Total Utilization	0		4,446		4,628			4,650	

Units of Measure for Area are in 1,000 Hectares.

Units of Measure for Production, Supply & Utilization are in 1,000 Metric Tons.

Sugar, Centrifugal El Salvador	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
		Data			Data			Data	
Beginning Stocks	19		19	59		6		13	
Beet Sugar Production	0		0	0		0		0	
Cane Sugar Production	580		545	590		548		552	
Total Sugar Production	580		545	590		548		552	
Raw Imports	0		0	0		0		0	
Refined Imp.(Raw Val)	0		0	0		0		0	
Total Imports	0		0	0		0		0	
Total Supply	599		564	649		554		565	
Raw Exports	300		318	375		301		307	
Refined Exp.(Raw Val)	0		0	0		0		0	
Total Exports	300		318	375		301		307	
Human Dom. Consumption	240		240	248		240		243	
Other Disappearance	0		0	0		0		0	

Total Use	240		240	248		240			243
Ending Stocks	59		6	26		13			15
Total Distribution	599		564	649		554			565

Units of Measure for Stocks, Production, Imports, Exports & Consumption are in 1,000 Metric Tons.

Author Defined:

Price Policy:

The wholesale price for white sugar is \$ 28.00 per cwt plus a 13 percent value-added-tax. At the retail level white sugar is sold at \$0.73 per Kg. plus a 13 percent value-added-tax.

The GOES supervises sugar prices through the Ministry of Economy at the wholesale level. However, little effort is made to control prices at the retail level. The Sugar Association publishes monthly retail prices to counter indiscriminate retail price hikes that deeply affect the consumer.