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El Salvador

Sugar Annual

2016 Sugar Production down due to El Niño

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Report Highlights:

El Salvador's sugarcane planted area in 2015/2016 (Nov 2015-Oct 2016) is higher than in 2014/15 reaching approximately 81,000 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year 2015, most sugar exports were destined for Canada, Malaysia, Australia, New Zealand, Taiwan, the EU, and to the U.S. re-export market. Also, China emerged as a new export destination for Salvadoran sugar. Favorable (but volatile) international prices continue providing financial relief to the sugar sector. The law for production of alternative fuels, including ethanol, continues to be "on hold" and there is no set date for its entry into force.

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, and additional access to the U.S. market due to CAFTA-DR will all continue to benefit El Salvador's sugar industry over the next 3 to 5 years. However, uncertain international prices and abnormal weather conditions might affect the sector.

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 (mostly) attractive prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters, high transportation costs and lack of government policies to assist sugarcane growers. Ultimately the success of the industry will depend on compliance with the sugar law by all stakeholders, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and final approval of an ethanol law that encourages investment. However, increased crime rates including extortions, as well as climate change are of major concern to the sector.

Sugarcane production for the 2015/16 harvest is estimated at 5.80 million metric tons (MMT). Based on new data provided by CONSAA, production for 2014/15 has been revised to 6.7 MMT.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.39 per pound, plus a 13 percent value-added-tax. Higher input costs, sugarcane burning and increased crime activity could play a major role in future sugar production.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

Sugar production for 2015/16 is estimated at 610,000 metric tons (MT). Sugar production for 2016/17 is expected to increase by approximately 10 percent. However, weather conditions will continue to play a major role in future sugar production. Erratic weather patterns caused by global warming can once again pose threats to the upcoming sugarcane production as it did in 2015/16. Weather forecasters predict an El Niño phenomenon could cause drought conditions by the middle of 2016. New data provided by CONSAA show exports reaching 481,300 MT for MY2015 and are estimated at 380,200 MT for MY2016.

Recent production numbers compiled by the FAS/El Salvador show that the 2015/16 sugarcane harvest is expected to reach 5.80 MMT. Sugar production is estimated to be 610,000 MT in 2015/16.

These production numbers are lower than in 2014/15 mainly due to the effect on yields by a major drought that severely affected the sector during harvest in 2015. However, the sugar sector continues working to control sugarcane burning during the harvest, to create new sugarcane varieties that are more resistant to pests and diseases, to invest in irrigation systems and to increase investment in the sugar milling process. Sugar production is expected to increase in 2016/17 reaching approximately 675,000 MT.

Planted area increased to 81,000 hectares (ha) during 2015/16 mainly due to positive international sugar prices and lack of production alternatives in the local agricultural sector. Planted area could increase in the near future if the ethanol production law is implemented, since there is ample idle land in the country that can be devoted to increased sugarcane production.

Grower prices continue to be set according to the sugar content of the cane. According to the sugar law, producers receive 54.5 percent of total sugar sales, with the rest appropriated by sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane provided. Continued investment on part of all sugar mills has reduced downtime during the milling process, as well as increased sugar recovery rates to a more competitive position within the region.

Consumption:

Due to a sluggish Salvadoran economy, growth of domestic sugar consumption is minimal reaching 290,000 MT in 2015/16. Post estimates that consumption will continue to have a slow growth in 2016/17 increasing to 291,000 MT.

Trade:

Exports for 2015/16 are expected to reach 380,200 MT; the export forecast for 2016/17 is 385,000 MT.

In November 2013, El Salvador, together with the rest of Central America, signed a Trade Association Agreement with the European Union (EU) that provides access to up to 100,000 MT of duty-free sugar from the region and a 25,088 MT quota for El Salvador. Furthermore, Central America is negotiating a free trade agreement with Canada that could also benefit the sugar industry.

The GOES continues to impose a 40 percent ad-valorem import tariff on all sugar; the bound rate is 70 percent as the GOES considers sugar politically sensitive because it is an important driver of rural income and employment. Even though CAFTA-DR encouraged regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar.

Australia, New Zealand, Taiwan, Malaysia and Canada were major destinations for Salvadoran sugar exports. Also, in MY-2015, 98,700 MT were exported to China. Other important destinations include the EU and the U.S. re-export market. Export destinations for 2016 are expected to be similar to 2015.

Export Trade Matrix El Salvador Centrifugal Sugar			
Time Period	MY	Units:	MT

Exports for:	2015		2016
U.S.	62,476	U.S.	65,500
Others		Others	
China	98,700	China	73,500
Taiwan	72,607	Taiwan	73,000
Canada	63,975	Canada	50,000
New Zealand	54,700	New Zealand	30,000
Malaysia	43,644	Malaysia	34,000
Australia	30,000	Australia	23,000
EU	26,978	EU	27,000
U.S. re-export	26,500	U.S. re-export	3,200
Dominican Republic	1,000		
Total for Others	418,104		313,700
Others not Listed	720		1,000
Grand Total	481,300		380,200

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in 2015/16 are estimated at 3,000 MT. Contraband sugar from neighboring countries is under control and no longer causes a disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA. Ending stock levels are expected to slightly decrease to 2,000 MT in 2016/17.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified 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; instead, limiting market access through import tariff protection continues to be the leading support mechanism.

Under the national sugar law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors which includes members from the government, sugar producers, and sugar mills.

A law for the production of alternative fuels, including ethanol, is still under review by the Government of El Salvador (GOES). Under the previous GOES administration there was agreement with the sugar industry on a 10 percent mix for ethanol and with gasoline. But thus far, the current administration has not decided on enactment of this law; arguing that they need to make sure that it is beneficial and has no negative impact on the environment and on consumers.

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;
- Improvement of milling yields;
- Investment in irrigation equipment;
- Diversification of mill income by focusing on energy generation;

- Improvement of sugar cane varieties to have better sugar recovery yields and higher quality sugar;
- Exchange of research and technology with other sugar producing countries;
- Introduction of new sugarcane varieties that are pest and disease resistant; and
- Coordination with security forces to diminish the impact of sugarcane burning and extortions from gangs.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Market Begin Year El Salvador	2014/2015		2015/2016		2016/2017	
	Nov 2014		Nov 2015		Nov 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	71	80	72	81	0	81
Area Harvested	69	79	70	80	0	80
Production	6350	6690	6500	5800	0	6400
Total Supply	6350	6690	6500	5800	0	6400
Utilization for Sugar	6350	6690	6500	5800	0	6400
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	6350	6690	6500	5800	0	6400
(1000 HA) ,(1000 MT)						
Sugar, Centrifugal Market Begin Year El Salvador	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	55	55	62	63	0	3
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	725	777	740	610	0	675
Total Sugar Production	725	777	740	610	0	675
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	780	832	802	673	0	678
Raw Exports	430	481	450	380	0	385
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	430	481	450	380	0	385
Human Dom. Consumption	288	288	290	290	0	291
Other Disappearance	0	0	0	0	0	0
Total Use	288	288	290	290	0	291
Ending Stocks	62	63	62	3	0	2
Total Distribution	780	832	802	673	0	678
(1000 MT)						

Source: CONSAA and USDA/FAS