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Report Name: Sugar Annual

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Report Highlights:

Sugar production in marketing year (MY) 23 is estimated at 805,000 metric tons (MT), while production for MY22 reached 785,000 MT. Improving international prices have eased the financial burden exerted by the high cost of inputs on the sugar sector. However, inflationary concerns due to the Ukrainian crisis has led the Government of El Salvador (GOES) to continue including sugar in a basket of products with a reduction to zero percent import duty for until March 2024.

Executive Summary:

Improved seeds, more access to irrigation systems, continued investment in energy production, new milling technology, and rum production will continue to benefit El Salvador's sugar industry over the next three to five years. However, uncertain future international prices and abnormal weather conditions will continue to be obstacles for the sector.

Sugarcane production for the MY23 harvest is estimated at 6.84 million metric tons (MMT). Based on new data provided by the Salvadoran Sugar Council (CONSAA), production for MY22 has been revised downward to 6.83 MMT.

Boosted by attractive internal prices, exports under free trade agreements and additional access to the U.S. market, the sector is recovering after sustained economic losses due to natural disasters, high transportation costs and lack of government assistance. Ultimately the success of the industry will depend on continued improvements in yields, increased diversification into energy co-generation projects and final approval of an ethanol law that encourages investment. However, uncontrolled sugarcane burning, higher input costs (specially fertilizers), possible increases in the minimum wage, increased transportation costs and climate change, and now the economic impact caused by the Ukraine conflict and high inflation, will continue to be major concerns for the sector. In addition, the Government of El Salvador has included sugar in the basket of products that had their import tariffs reduced to zero to combat inflation. (See Policy)

Production:

Sugar production in MY23 is estimated at 805,000 metric tons (MT). Production continues to improve because of continued investments in irrigation, refining equipment and improved seeds. Estimated sugar production for MY22 is 785,000 MT. New data provided by CONSAA show exports reaching 545,948 MT for MY22 and are estimated at 524,200 MT for MY23.

Recent production numbers compiled by FAS/El Salvador show that the MY23 sugarcane harvest is expected to reach 6.84 MMT. This production forecast is slightly higher than in MY22 because of a rebound in economic growth after the adverse effects of COVID-19 on the overall Salvadoran economy, including the sugar sector.

Planted area is expected to remain at 79,000 hectares during MY23 mainly due to a continued stabilization of producers joining the sector. Planted area could increase in the near future if the security situation continues improving in rural areas, sugar prices increase, and the ethanol production law is implemented. There are approximately 300,000 hectares of idle land in the country that could be devoted to increased sugarcane production. However, the Government of El Salvador (GOES) seems to be more focused on improving basic grain, vegetable, fruit, dairy, and meat production through a national agricultural recovery program that was announced in the fourth quarter of 2021 by the President.

Grower prices continue to be set according to the sugar content of the cane. In 2019, CONSAA agreed to increase the share that producers receive of total sugar sales from 54.5 to 56 percent, with the other 44 percent going to the sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane provided. Continued investment in sugar mills has reduced downtime during the milling process, and increased sugar recovery rates to a more competitive position within the region.

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

- Increased extraction rates;
- Investment in irrigation systems;
- Diversification into energy generation;
- Improved sugarcane varieties;
- Research and technology exchange with other sugar producing countries;
- Introduction of pest and disease-resistant sugarcane varieties;
- Rum production;
- Coordination with law enforcement to diminish the impact of sugarcane burning.

Consumption:

Due to an already sluggish Salvadoran economy and now the added burden of high inflation and the Ukraine conflict, domestic sugar consumption is expected to decrease reaching 271,000 MT in MY22. Post estimates that due a slight increase in sugar demand, mainly in the foodservice and confectionary sectors, consumption is forecast to increase to 272,000 MT in MY23.

Trade:

Exports for MY23 are expected to reach 524,200 MT; the export forecast for MY22 increased to 545,948 MT due to higher sugarcane milling yields as a result of favorable weather conditions in 2022.

The GOES imposes 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. In August 2018, El Salvador joined the Customs Union with Guatemala and Honduras; however, sugar is not one of the products that will benefit from duty-free trade. However, due to inflationary pressure on the Salvadoran economy, in March 2022, the GOES decided to include sugar in the list of products that enjoys a 0 percent import duty for an additional period of one year.

The United States, Canada, South Korea, China, and Taiwan are major destinations for Salvadoran sugar. Other export destinations in MY22 for Salvadoran sugar were Haiti, Italy, Peru, Spain, the United Kingdom, and the Netherlands.

The decision by the GOES to break diplomatic relations with Taiwan and recognize China created enormous uncertainty in the sugar sector. El Salvador and Taiwan had a Free Trade Agreement (FTA) that includes favorable terms for Salvadoran sugar exports. However, in December 2018, the GOES notified Taiwan that El Salvador would withdraw from the FTA.

El Salvador also benefits from the World Trade Organization (WTO) quota that allows Salvadoran sugar duty-free entry to the United States. El Salvador was allocated 27,971 Metric Tons (MT), and an additional reallocation of 7,668 MT for a total of 35,639 MT under the WTO quota for the period October 1, 2022 - September 30, 2023.

Export Trade Matrix El Salvador Centrifugal Sugar (Metric Tons)			
	MY		MY
Exports for:	2022		2023
U.S.	164,621	U.S.	158,035
Others		Others	
China	135,000	China	129,600
Canada	84,400	Canada	81,025
South Korea	51,071	South Korea	49,025
Haiti	19,047	Haiti	18,285
Peru	16,389		15,735
United Kingdom	14,322	United Kingdom	13,750
Spain	11,651	Spain	11,185
Taiwan	10,062	Taiwan	9,660
Greece	9,307	Greece	8,935
Italy	6,453	Italy	6,195
Puerto Rico	6,167	Puerto Rico	5,920
Netherlands	3,549	Netherlands	3,405
Total for Others	367,418		352,720

Others not Listed	13,909		13,445
Grand Total	545,948		524,200

Source: Trade Data Monitoring

Stocks:

Ending stocks in MY23 are estimated at 3,000 MT. Contraband sugar from neighboring countries is negligible and causes no disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A. 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 that includes members from government, sugar producers, and sugar mills.

A draft law for the production of alternative fuels, including ethanol, which was drafted in 2009, is still on hold. The sugar industry and the GOES have discussed setting a 10 percent blend for ethanol in gasoline, but the current administration has not enacted this law because it says it needs to analyze the impact on the environment and consumers. The ruling party currently enjoys a super-majority in the National Assembly, which provides the opportunity for this pending law to pass.

Due to the increase in inflation (7.3 % in 2022), in March 2022, the GOES passed a temporary law that decreases the import duty to zero percent for a list of basic products, including sugar. This law will be in force until March 2024. Thus far there have not been any sugar imports derived from the reduction in the import duty and CONSAA does not foresee any sugar coming into the market in the near future. Industry representatives cite the high cost of transportation and logistics and the requirement to add vitamin A to all sugar sold in the market as major roadblocks for sugar imports, even from within the Central American region. FAS/San Salvador will continue to monitor the data to detect any increases in sugar imports.

Production, Supply and Distribution

Sugar Cane for Centrifugal	2021/2022		2022/2023		2023/2024	
	Oct 2021		Oct 2022		Oct 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Oct 2021		Oct 2022		Oct 2023	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	79	79	79	79	0	79
Area Harvested	78	78	78	78	0	78
Production	6870	6850	6910	6830	0	6840
Total Supply	6870	6850	6910	6830	0	6840
Utilization for Sugar	6870	6850	6910	6830	0	6840
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	6870	6850	6910	6830	0	6840
(1000 HA), (1000 MT)						
Sugar, Centrifugal	2021/2022		2022/2023		2023/2024	
	Oct 2021		Oct 2022		Oct 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Oct 2021		Oct 2022		Oct 2023	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	33	33	30	24	0	14
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	780	807	785	785	0	805

Total Sugar Production	780	807	785	785	0	805
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	813	840	815	809	0	819
Raw Exports	435	488	436	469	0	487
Refined Exp. (Raw Val)	71	58	71	55	0	57
Total Exports	506	546	507	524	0	544
Human Dom. Consumption	277	270	278	271	0	272
Other Disappearance	0	0	0	0	0	0
Total Use	277	270	278	271		272
Ending Stocks	30	24	30	14	0	3
Total Distribution	813	840	815	809	0	819
(1000 MT)						

Attachments:

No Attachments