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Dominican Republic

Sugar Annual
2018

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Report Highlights:
Post forecasts sugar production of 600,000 metric tons (MT) during Marketing Year (MY) 2018/2019 (October/September). During MY 2017/18, Post projects sugar production of 595,000 MT, a marked recovery from the 542,122 MT produced during the severe drought of MY 2016/17. Additionally, for MY 2018/19, Post projects exports to reach 200,000 MT and imports at 15,000 MT to meet the demand from the United States and China. Over 90 percent of these exports are expected to fill the U.S. annual sugar tariff-rate quota (TRQ) for FY 2018 due to price premiums in the U.S. market.

Commodities:
Sugar, Centrifugal

1. Production

During MY 2018/19, Post forecasts total sugar production of 600,000 MT due to expected normal rainfall and yield patterns. For MY 2017/18, Post projects production of 595,000 MT as rainfall continues to improve in Dominican production zones and the country recovers from a severe drought that affected local agriculture during the previous two years. For MY 2017/18, the average industrial yield is estimated at 11 percent, similar to previous years. According to the Dominican Sugar Institute (INAZUCAR, which is part of the Ministry of Agriculture) and Post research, total sugar production was 542,122 MT during MY 2016/17, comprised of 364,678 MT raw and 177,444 MT refined sugar. The largest private producer (Central Romana) continues to dominate the Dominican sugar market and produces approximately 64 percent of the total production. Central Romana is the only mill currently producing refined sugar and is expected to remain so.

2. Consumption

Post does not forecast any significant increase in consumption during MY 2018/19 or MY 2017/19. During MY 2016/17, local consumption of sugar remained stable at 390,000 MT, for an estimated per capita consumption of 83 pounds per person per year. Of this total, the Dominican market consumed approximately 53 percent raw sugar and 47 percent refined.

3. Trade

The United States remains the most important market for Dominican Republic (DR) sugar. During MY 2016/17, according to INAZUCAR and Post research, exports of raw cane sugar totaled 185,136 MT, of which 100 percent was exported to the United States. Sources indicate that Chinese buyers are planning to purchase 25-30,000 MT of Dominican raw sugar. Therefore, Post projects MY 2017/18 exports at 210,000 MT. At this point, it is unknown if this interest will continue in the future. In MY 2018/19, Post forecasts exports at 200,000 MT, which will depend on U.S. import quota allocations and the behavior of international market prices.

The United States announced TRQ allocations for Fiscal Year 2018 (FY 2018). Once again, the DR received the largest single-country allocation, representing 17 percent of the entire TRQ. The allocation was distributed by the Dominican Government as follows:

FY 2018 U.S. TRQ ALLOCATION AND LOCAL DISTRIBUTION

Mill	Allocations of U.S. TRQ		
	Share (%)	*Quantity (MTRV)*	*Quantity (MTCV)***
Central Romana	62.84	116,465	111,583
INICIA	25.20	46,704	44,746
Consorcio Azucarero Central	10.00	18,533	17,756
Ingenio Porvenir	1.96	3,633	3,480
TOTAL	***100.00***	***185,335***	***177,566***

**MTCV: Metric Tons Commercial Value.*
Source: INAZUCAR, Decree No. 420-17 http://www.inazucar.gov.do/files/Decreto-Zafra/Decreto-420-17-a%C3%B1o-2017-2018.pdf

According to comments by INAZUCAR and private sector contacts, the industry intends to fill its U.S. TRQ during FY 2018, and believes that a high utilization rate is important to maintaining the DR's position as the largest quota-holder. The industry is also open to receive an increased allocation during MY 2017/18 of approximately 30,000 MT. According to Post data, almost halfway into MY 2017/18, the DR has exported 94,727 MT to the United States (51 percent fill rate). The DR is not expected to ship sugar to the EU in the near term.

Smaller quantities of sugar are informally exported to neighboring Haiti in response to disparities in market prices. However, these quantities are not necessarily reflected in official export figures. According to Post sources, quantities may vary between zero and 50-60,000 MT per year depending on the relative price levels in Haiti and the DR.

During FY 2017, the Dominican Republic also received the largest single country allocation for the annual U.S. TRQ: 185,335 MT, out of a total of 1,117,195 MT assigned. The DR filled 99 percent of its assigned TRQ. Allocations and execution per individual mill in FY 2017 were:

FY 2017 U.S. TRQ ALLOCATION AND EXECUTION

Mill	Allocations of U.S. TRQ		Execution of U.S. TRQ	
	Share (%)	*Quantity (MTRV)*	*Quantity (MTRV)*	*Non-executed (MTRV)*
Central Romana	62.84	116,465	116,274	191
INICIA	27.20	46,704	49,486	-2,782
Consorcio Azucarero Central	10.00	18,533	19,376	-843
Ingenio Porvenir	1.96	3,633	0	3,633
TOTAL	***100.00***	***185,335***	***185,136***	***199***

**(MTRW): Metric Tons Raw Value.*
Source: INAZUCAR, Decree No. 313-16, http://www.inazucar.gov.do/files/Decreto-Zafra/Decreto-313-16.pdf; FAS CQI files.

In the context of the CAFTA-DR framework, an additional quota exists for products containing sugar. That quota is allocated to CAFTA-DR signatory countries each calendar year, based on the country's performance[1] and availability. For FY 2018, the Dominican Republic did not receive an allocation of this quota.

The Dominican Republic imports limited quantities of sugar every year from various countries, including Guatemala, Mexico, Brazil, and Colombia. With higher levels of sugar production and stocks, post projects import levels during MY 2018/19 at 15,000 MT, down from the 20,000 MT forecast to be imported during MY 2017/18.

Current in-quota import duties for raw and refined sugar are 14 percent and 20 percent, respectively, plus an 18 percent value-added tax (VAT)[2]. As part of its World Trade Organization (WTO) commitments under the Technical Rectification following the Uruguay

[1] *In the Final Text of the CAFTA-DR Agreement, please see Appendix I to the Schedule of the United States to Annex 3.3 for more details: http://www.ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file971_3958.pdf*
[2] *The DR's value-added tax (VAT) is referred to locally as the "Impuesto a la Transferencia de Bienes Industrializados y Servicios" (ITBIS).*

Round, the DR Government established a TRQ of 30,000 MT for sugar (with the in-quota rates cited above), coupled with an out-of-quota tariff of 85 percent. Following these negotiations, the DR has often issued import permits for amounts in excess of 30,000 MT annually in order to cover shortfalls in domestic production. Generally, these additional amounts are assessed only the in-quota tariff rate. INAZUCAR is the entity responsible for administering the tariff quota for sugar.

Under the CAFTA-DR, Annex 3.3 of the Agreement establishes that the DR will phase out its sugar tariffs over a 15-year period, beginning from the base rate of 85 percent. The rates will be at zero as of January 1, 2020. As of 2018, the current tariff rate is 11.33 percent. Tariffs on High Fructose Corn Syrup (HFCS) will also be phased out during a 15-year period, beginning from the base rate of 14 percent. As of 2018, the current tariff rate for HFCS is 1.9 percent.

4. Other products

In addition to raw sugar exports, other sub-products are produced for both local and international markets representing important revenue sources for the industry. For example, for MY 2016/17, the industry produced 40 million gallons of molasses for industrial and livestock use. Molasses is sold locally and exported.

Another important product is furfural, which is used by oil refineries as a dissolving agent and is processed out of the cane fiber. Furfural is only produced by Central Romana and, according to INAZUCAR, their exports accounted for 30,000 MT in MY 2016/17.

5. Stocks

Producers hold the lion's share of stocks, which typically range from 20,000 to 50,000 MT. During MY 2017/18, stocks are projected at 31,000 MT due to increased production, stable consumption, and increased exports. For MY 2018/19, based on increased production, stable consumption and reduced exports, stocks are forecast at 56,000 MT.

6. Policy

Several laws regulate the sugar sector in the Dominican Republic. Law 491 controls the relationship between private cane producers and millers and sets prices for raw cane based on sugar content. Similarly, Law 619 assigns regulatory functions to INAZUCAR and governs marketing (domestic and export), TRQ assignment, price schedules, and statistics.

For a number of years, the government has been promoting the use or development of an ethanol-gasoline blend, previously authorized by an old law (2071) and reactivated by Decree No. 556-05 in 2005. Subsequently, the regulations outlined in the 2005 legislation were enacted in Law No. 57-07 (promulgated in May 2007), which seeks to encourage the development of renewable sources of energy and their special regimes. The effort to establish a mandate that would include a requirement of 10 percent ethanol in an ethanol-gasoline blend, and one of 20 percent biodiesel for a diesel blend, has stagnated. Both local and foreign investors remain hesitant to establish a mandate under such uncertainties. None of the major mills currently plans to install ethanol production facilities or are advocating for implementation of the blending mandate.

All of the major mills are, or soon will be, self-sufficient in energy production, and look to boost co-generation capacity from the incineration of sugar cane bagasse. Some of the mills, especially Ingenio Cristobal Colon (INICIA) and CAC, continue to be interested in supplying energy to the national matrix (co-generation) to generate additional income.

7. Marketing

The Ministry of Industry and Commerce and INAZUCAR establish the base price for both raw and refined sugar based on historical prices and production estimates. The prices set in April 2016 remain the official prices in the local market, as follows:

OFFICIAL PRICES FOR SUGAR (APRIL, 2016)

Type of Sugar	Prices (US$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.32	0.34	0.37
Refined	0.37	0.39	0.42

**Average exchange rate of April 2018, according the central Bank: RD$49.31=US$1.*
Source: INAZUCAR, Resolution No. 004/2016; http://www.inazucar.gov.do/files/resoluciones-precios/resolucion-de-precio-004-2016.pdf

At the retail level, since January 2016 sugar has been taxed with an 18 percent VAT.

8. Statistics

Sugar Cane for Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Nov 2017		Nov 2017		Nov 2018	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	110	110	115	115	0	120
Area Harvested	110	110	115	115	0	120
Production	5400	5400	5900	5500	0	5700
Total Supply	5400	5400	5900	5500	0	5700
Utilization for Sugar	5400	5400	5900	5500	0	5700
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	5400	5400	5900	5500	0	5700
(1000 HA) ,(1000 MT)						

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	24	24	16	16	0	31
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	542	542	590	595	0	600
Total Sugar Production	542	542	590	595	0	600
Raw Imports	20	20	15	15	0	10
Refined Imp.(Raw Val)	5	5	5	5	0	5
Total Imports	25	25	20	20	0	15
Total Supply	591	591	626	631	0	646
Raw Exports	185	185	185	210	0	200
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	185	185	185	210	0	200
Human Dom. Consumption	390	390	390	390	0	390
Other Disappearance	0	0	0	0	0	0

Total Use	390	390	390	390	0	390
Ending Stocks	16	16	51	31	0	56
Total Distribution	591	591	626	631	0	646
(1000 MT)						