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Post: Santo Domingo

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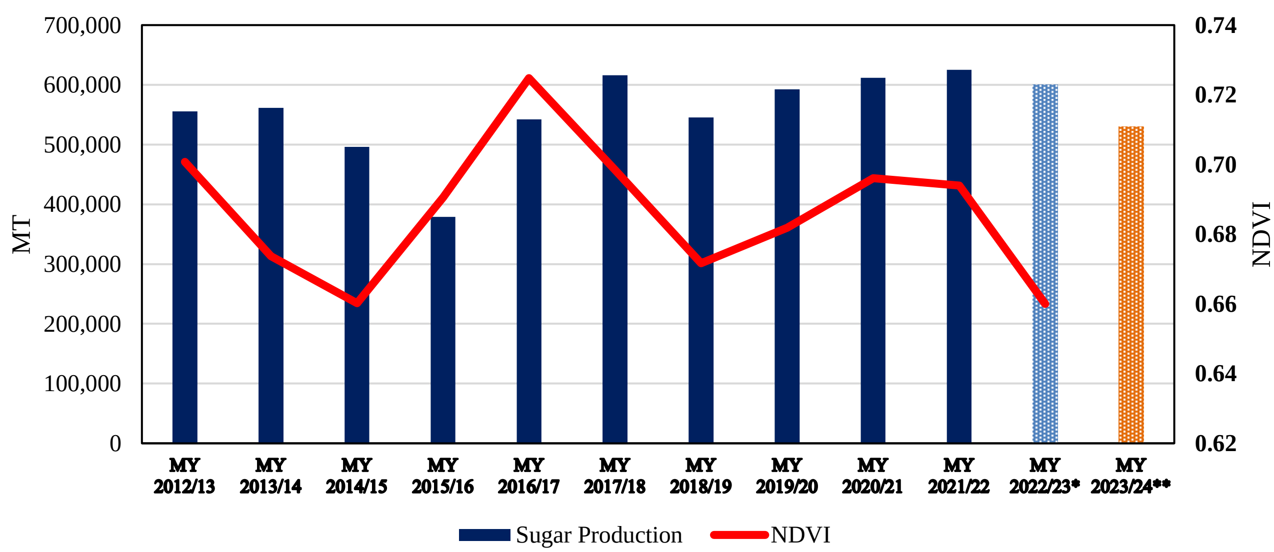
Report Highlights:

As a severe drought looms large over the sugar mill areas in the Dominican Republic (DR) and the U.S. Customs and Border Protection (CBP) continues to prohibit sugar and sugar-based imports from the top Dominican producer, Post forecasts local production at 530,000 metric tons (MT) for marketing year (MY) 2023/24 (October/September), 12 percent down from the MY 2022/23 estimates. Despite lower sugar production projections, Dominican authorities have pledged to meet both local demand and its allocated U.S. sugar quota. Post believes that the DR will not be able to supply any of the additional allocation recently announced by the U.S. Office of the Trade Representative (USTR).

1. Production

In MY 2023/24, Post forecasts total sugar production at 530,000 MT, 12 percent lower than the MY 2022/23 estimates. Signs of a severe drought have begun to emerge in the main production areas of the country and are expected to continue well into the following marketing year. Additionally, U.S. Customs and Border Protection (CBP) issued a [Withhold Release Order] against Central Romana - the largest local Dominican sugar producer - due to long-standing labor issues. The CBP order continues to block sugar and sugar-based products from entering the United States. In response, local industry has crafted a plan for Central Romana to supply most of the local market, while smaller producers fill the U.S. quota (see trade section below for more information). Meanwhile, in MY 2022/23, Post estimates production down by 4 percent to 600,000 MT compared with the same period last year, as lower-than-normal rainfall patterns will affect yields in local production zones.

Graph 1. **Sugar Production and Average NDVI in the Dominican Republic**



*Estimate of production; Average NDVI during the first three months of the MY; **Forecast
Source: Built by Post with information from INAZUCAR, GIMMS/NASA and Post research.

In Graph 1 above, the average Normalized Difference Vegetation Index (NDVI[1]), a tool that measures vegetation, signals higher drought for the estimated period. During the first three months of MY 2022/23, the average NDVI was 0.66, which indicates moderately healthy plants throughout the country.

When analyzing the NDVI anomaly[2] in the main sugar production areas, the climate outlook paints a grimmer picture. As shown in Graph 2 below, the NDVI anomaly shows a below-normal range from January through March 2023 compared to the same period last year in the southeast area of the country

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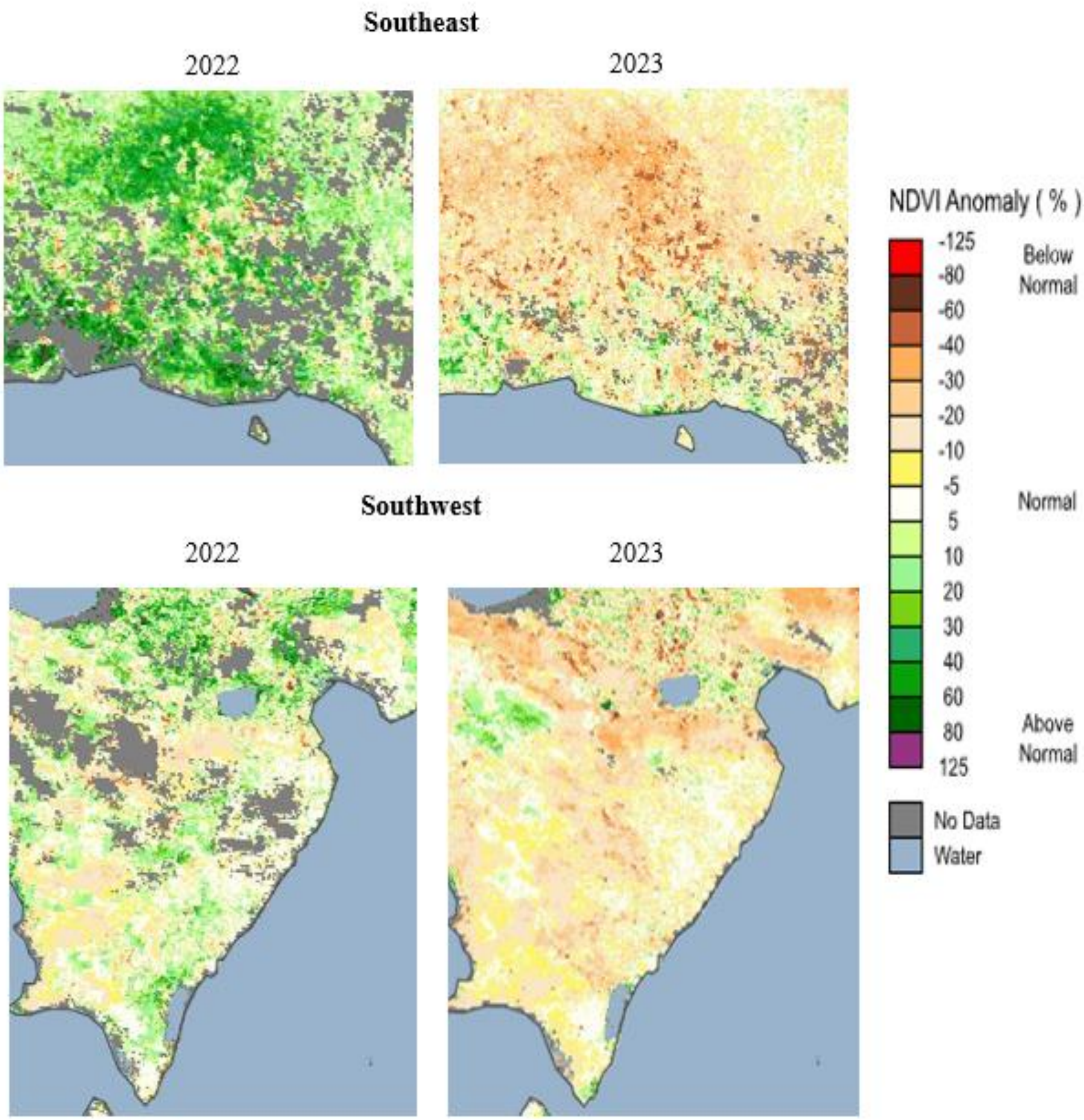
[1] The Normalized Difference Vegetation Index (NDVI) quantifies vegetation by measuring the difference between near-infrared (which vegetation strongly reflects) and red light (which vegetation absorbs). The NDVI is scaled between -1 and 1 as follows: -1.00-0.00 dead plant; 0.00-0.33 unhealthy plant; 0.33-0.66 moderately healthy plant; and 0.66-1.00 very healthy plant.

[2] The NDVI index anomaly is a comparison of the current NDVI value for each day of year to the average computed over the set of base years to determine if the areas are more or less productive than the average.

where the largest sugar growers and processors are located. Similar conditions appear in the southwest area of the country (e.g. Barahona) where the third-largest sugar processor Consorcio Azucarero Central (CAC) is located.

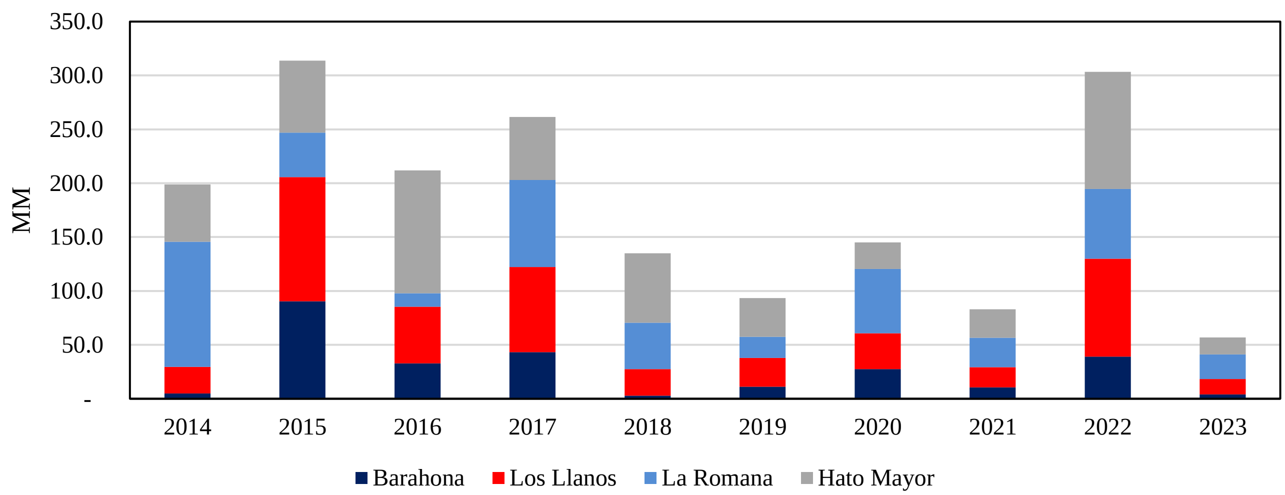
Graph 2. **NDVI Anomaly in the Main Sugar Production Areas**



Source: Built by Post with information from GIMMS/NASA.

This past February received the least rainfall of any February over the last decade in the areas of Barahona, San Pedro de Macoris, La Romana and Hato Mayor, according to the National Meteorology Office (ONAMET). As shown in Graph 3 below, cumulative rainfall in these locations reached a mere 57millimeters (MM), compared to an average of 194MM in the previous year.

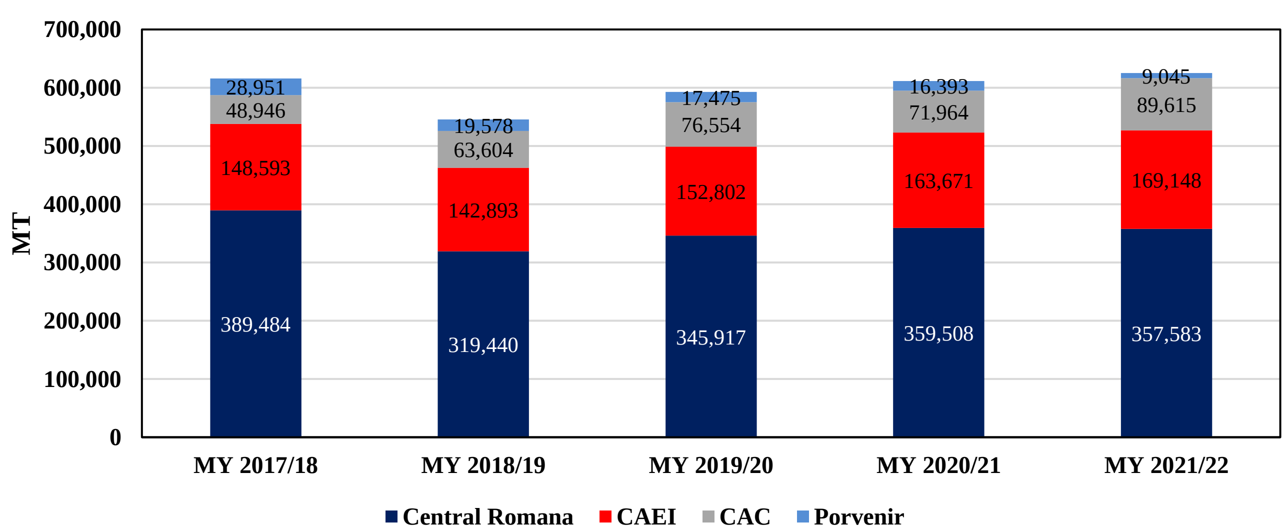
***Graph 3.* Rainfall During February 2014-2023 in the Main Sugar Production Areas**



Source: Built by Post with information from the National Meteorology Office (ONAMET).

According to the Ministry of Agriculture's Sugar Institute, INAZUCAR, and Post research, total sugar production rose to 625,391 MT in MY 2021/22, which was comprised of 463,012 MT of raw sugar and 162,379 MT of refined sugar.

***Graph 4.* Sugar Production in the Dominican Republic by Mill**



Source: Built by Post with information from INAZUCAR and Post research.

As shown in Graph 4, the largest local private producer, Central Romana, continues to retain outsized market share, making up approximately 57 percent (357,583 MT) of total production. CAEI ranks as the second-largest producer with 27 percent (169,148 MT). CAC produced 14 percent (89,615 MT) of total production during MY 2021/22. Central Romana and CAEI are the only producers of refined sugar in the country.

2. Consumption

In MY 2023/24, Post forecasts sugar consumption at 400,000 MT, up nearly 1 percent from the MY 2022/23 estimate. The forecast is primarily due to the upsurge in tourists consuming more sweets and processed products at hotels throughout the country. According to the Dominican Republic's Central Bank, the country received 7.2 million tourists in 2022, a 47-percent increase from the number of tourists visiting in the previous year (4.9 million). The Dominican government expects the country to reach 7.5 million tourists in 2023. The forecast period also accounts for a one-percent boost in population growth.

In MY 2021/22, local consumption reached 395,000 MT, for an estimated per capita consumption of 83 pounds per year. Of this total, the Dominican market consumed approximately 54 percent of raw sugar and 46 percent of refined.

3. Trade

In MY 2023/24, Post forecasts exports to remain flat year-on-year at 190,000 MT, assuming normal demand patterns from the United States. In MY 2022/23, Post estimates exports to remain stable at 190,000 MT, despite the U.S. prohibition of sugar imports from Central Romana. During the first six months of MY 2022/23, the Dominican Republic has shipped 76,310 MT of raw sugar to the United States.

The U.S. Customs and Border Protection issued a WRO against Central Romana Corporation on November 23, 2022 based on "information that reasonably indicates the use of forced labor in its operations". The WRO prohibits entry into the United States of raw sugar and sugar-based products produced by the company in the Dominican Republic. On a yearly basis, Central Romana produces approximately 60 percent, or 350,000 MT of total domestic sugar supply and exports approximately 63 percent, or 116,000 MT, of the total U.S. raw sugar quota allocated to the Dominican Republic.

Despite the WRO, INAZUCAR informed Post that industry plans to fill the fiscal year 2023 (FY 2023) allocation. On September 19, 2022, the United States announced the TRQ allocations for FY 2023 here. Once again, the Dominican Republic received the largest, single-country allocation of 189,343 MT, which accounts for 17 percent of the U.S. quota. On March 14, 2023, USTR announced reallocations of unused FY 2023 sugar volumes here and allocated an additional 40,000 MT to the Dominican Republic. Post doubts that the Dominican Republic will be able to fill any of the additional quota.

To satisfy the FY 2023 initial allocation, members of the local sugar industry reached consensus to temporarily reassign mills to supply local and foreign markets. As a result, Central Romana will decrease output of raw sugar by 19 percent to 170,000 MT and increase output of refined sugar by 10 percent to 160,000 MT. The increased output in refined sugar will offset the originally planned production of refined sugar from CAEI for FY 2023.

CAEI will scale down refined sugar production by 50 percent to 15,000 MT and increase raw production by 20 percent to 180,000 MT. The company will not reduce refined sugar production any further to continue supplying the local market. CAC is also expected to increase raw sugar production by 11 percent to 100,000 MT to supply both local and U.S. markets.

Table 1. **DR Sugar Production Programming and TRQ Allocations for MY 2022/23 Before and After the CBP WRO**

Mill	Original Programming (Before CBP WRO)				Modified Programming (After CBP WRO)			
	PRODUCTION			TRQ Allocation	PRODUCTION			TRQ Allocation
	Raw	Refined	TOTAL		Raw	Refined	TOTAL	
Central Romana	210,000	145,000	355,000	118,983	170,000	160,000	330,000	0
Consorcio Azucarero de Empresas Industriales (CAEI)	150,000	30,000	180,000	51,426	180,000	15,000	195,000	132,729
Consorcio Azucarero Central (CAC)	90,000	0	90,000	18,934	100,000	0	100,000	56,614
Azucarera Porvenir	5,000	0	5,000	0	5,000	0	5,000	0
TOTAL	**455,000**	**175,000**	**630,000**	**189,343**	**455,000**	**175,000**	**630,000**	**189,343**

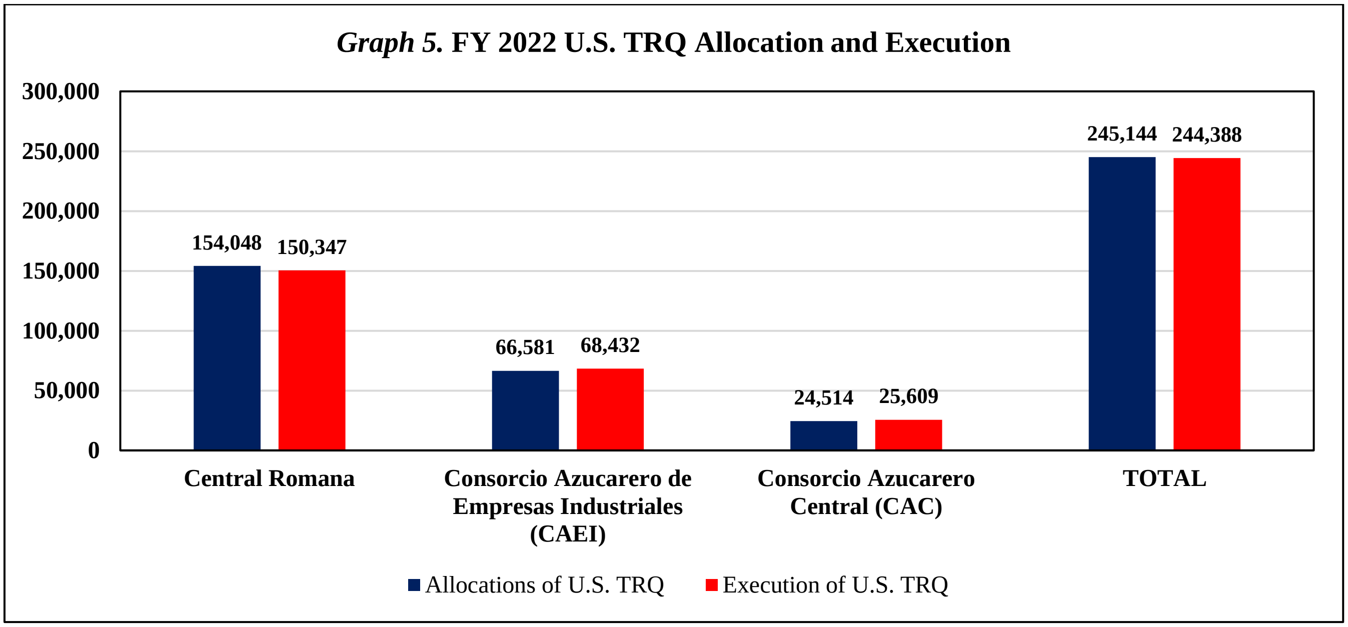
Source: Built by FAS/Santo Domingo with information from INAZUCAR and Post research.

As shown in Table 1, INAZUCAR has publicly announced the arrangements for FY 2023 allocations. CAEI will receive 70 percent and CAC the remainder. Post believes that the Dominican Republic will fill its initial quota allocation for FY 2023 based on the sugar industry's proposal. According to INAZUCAR and private sector contacts, industry believes that a high utilization rate is important to maintain the DR's position as the largest quota-holder.

The United States remains the top buyer of Dominican sugar. In MY 2021/22, official exports of raw cane sugar totaled 244,388 MT, all of which was exported to the United States. Post estimates that the Dominican Republic informally exported an additional 5,000 MT to Haiti. Similar volumes are projected for the following MY.

Every year, the DR exports small quantities of raw sugar through informal channels to neighboring country Haiti in response to price disparities. However, these quantities are not necessarily reflected in official export figures. According to Post sources, quantities may vary widely per year depending on relative price levels.

In FY 2022, the Dominican Republic received the largest U.S. sugar allocation of 185,335 MT, out of a total of 1,117,195 MT. The country received additional allocations in the same year that lifted its total to 245,144 MT, nearly 22 percent of the entire U.S. sugar quota; the DR filled 99 percent of the sum. The following illustrates the allocations and execution rate per mill in FY 2022:



Source: Built by Post with information from INAZUCAR and Post research.

In cases where mills cannot fill the allocation, INAZUCAR informally reallocates quantities. As shown in Graph 5 above, INAZUCAR reallocated part of Central Romana's allocation to CAEI and CAC. Hence, execution levels could exceed allocations.

In the Dominican Republic – Central America Free Trade Agreement (CAFTA-DR) , an additional quota exists for products containing sugar. That quota is allocated to CAFTA-DR signatories each calendar year based on whether the country has a positive trade surplus in sugar and syrup goods[3] and availability. In FY 2023, the requirements disqualified DR.

The Dominican Republic imports limited quantities of sugar every year from various non-U.S. countries, including Guatemala, Mexico, Costa Rica, Brazil, and Colombia. With lower levels of production and stocks in the DR, Post projects imports for MY 2023/24 to reach 60,000 MT, higher than the MY 2022/23 estimate of 10,000 MT.

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)[4]. As part of its World Trade Organization (WTO) commitments, 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 such negotiations, the Dominican Republic has 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. Furthermore, INAZUCAR authorizes more imports when production falls.

Under CAFTA-DR, as of January 1, 2020, U.S. sugar and High Fructose Corn Syrup (HFCS) exported to the Dominican Republic enjoy duty-free access.

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[3] *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

[4] *The DR's value-added tax (VAT) is referred to locally as the "Impuesto a la Transferencia de Bienes Industrializados y Servicios" (ITBIS).*

4. Other products

In addition to raw sugar exports, other sub-products are produced for both local and international markets, which represent an important revenue stream for the sugar industry. For example, in MY 2021/22, the sugar industry produced 37 million gallons of molasses for industrial (i.e. rum) and livestock use. Molasses is sold both locally and internationally.

Another important product is furfural, which is used by oil refineries as a dissolvent agent and is processed from cane fiber. Furfural is only produced by Central Romana, and, according to INAZUCAR, production totaled 29,000 MT in MY 2021/22.

5. Stocks

Producers hold the lion's share of stocks. In MY 2023/24, Post forecasts lower ending stocks at 106,000 MT due to lower production levels and steady exports. In MY 2022/23, Post projects stocks at 105,000 MT since stock levels are usually retained during high production years as well as local producers expect to receive additional sugar allocations.

6. Policy

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

For a number of years, the government has promoted the use or development of an ethanol-gasoline blend, established by Decree No. 556-05 in 2005. Subsequently, the regulations outlined in the 2005 legislation were enacted in Law No. 57-07 (enacted in May 2007), which seeks to encourage the development of renewable sources of energy and their special regimes. The effort aimed to establish a mandate that would include a 10-percent requirement on ethanol in an ethanol-gasoline blend, and a 20-percent biodiesel for a diesel blend; the executive branch has yet to enact his initiative. Both local and foreign investors remain hesitant to enter the market under such uncertainties. None of the major mills currently plan to install ethanol production facilities nor advocate for implementation of the blending mandate. Additionally, imported ethanol is subject to the taxing scheme applied to alcohol for human consumption, including the 18 percent VAT plus and an ad valorem tax depending on the percentage of alcohol and weight. This taxing scheme essentially prices out imported alcohol from the local market.

All of the major mills are, or soon will be, self-sufficient in energy production, and will look to boost co-generation capacity from the incineration of sugar cane bagasse. Some of the mills, especially CAEI and CAC, supply energy to the national matrix (co-generation) generating additional income.

7. Marketing

The Ministry of Industry and Commerce and INAZUCAR established the base price for both raw and refined sugar based on historical prices and production estimates. The base prices were last updated in December 2020. The chart below shows the established prices in current dollars.

***Table 2.* Official Prices for Sugar in the Dominican Republic**

Type of Sugar	Prices (US$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.33	0.36	0.40
Refined	0.38	0.42	0.46

**Average exchange rate on 03/30/2022, according to the Central Bank: RD$55.19=US$1.*
Source: INAZUCAR, Resolution No. 001/2020.

Since January 2016, retail sugar has been taxed with an 18 percent VAT.

8. Statistics

Sugar Cane for Centrifugal	2021/2022		2022/2023		2023/2024	
Market Year Begins	Nov 2022		Nov 2023		Nov 2024	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	115	115	116	110	0	100
Area Harvested (1000 HA)	115	115	116	110	0	100
Production (1000 MT)	5600	5600	5650	5350	0	4800
Total Supply (1000 MT)	5600	5600	5650	5350	0	4800
Utilization for Sugar (1000 MT)	5600	5600	5650	5350	0	4800
Utilization for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	5600	5600	5650	5350	0	4800
(1000 HA), (1000 MT)						

Sugar, Centrifugal	2021/2022		2022/2023		2023/2024	
Market Year Begins	Oct 2021		Oct 2022		Oct 2023	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	92	92	117	87	0	105
Beet Sugar Production (1000 MT)	0	0	0	0	0	0
Cane Sugar Production (1000 MT)	625	625	630	600	0	530
Total Sugar Production (1000 MT)	625	625	630	600	0	530
Raw Imports (1000 MT)	0	0	0	0	0	50
Refined Imp. (Raw Val) (1000 MT)	15	15	15	10	0	10
Total Imports (1000 MT)	15	15	15	10	0	60
Total Supply (1000 MT)	732	732	762	697	0	695
Raw Exports (1000 MT)	220	250	190	195	0	190
Refined Exp. (Raw Val) (1000 MT)	0	0	0	0	0	0
Total Exports (1000 MT)	220	250	190	195	0	190
Human Dom. Consumption (1000 MT)	395	395	397	397	0	399
Other Disappearance (1000 MT)	0	0	0	0	0	0
Total Use (1000 MT)	395	395	397	397	0	399
Ending Stocks (1000 MT)	117	87	175	105	0	106
Total Distribution (1000 MT)	732	732	762	697	0	695
(1000 MT)						

Attachments:

No Attachments