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Sugar Production Grows Slowly due to Construction Delays and Drought

Report Categories:

Sugar

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Report Highlights:

With increased processing capacity and better weather conditions expected to prevail, sugar production is forecast to climb to 370,000 metric tons in MY16/17 (May-Apr). MY15/16 production, while up year-over-year, was lower than expected because of the drought and factory construction delays. Sugar consumption, which is growing at a fast clip, continues to outstrip sugar supplies, making imports necessary. Imports are projected to grow year-over year, reaching 350,000 metric tons in MY16/17.

Production:

Sugar production is expected to climb to 370,000 metric tons in MY16/17 (May-April), an increase of 20,000 metric tons over the newly-revised estimate for the previous year. This anticipated increase in production would have been larger, but a couple of the sugar factories under construction are not expected to reach their full capacity as was originally planned. In addition, this estimate is made under the assumption that dams and other water sources, which have been impacted by the drought, will be sufficiently recharged to provide adequate irrigation water to sugarcane-growing areas.

For MY15/16, sugar production is revised to 350,000 metric tons, down from the official USDA estimate of 400,000 metric tons, but still up year-over-year by 20,000 metric tons. Production for this period would have been greater, but was hampered because there was less irrigation water due to the drought and because several sugar factories, which are still under construction, did not come online as originally expected. See table 1 for historical production data and table 2 for factory-specific production capacity.

The government of Ethiopia has invested significant sums to build the country's sugar production capacity with the underlying goal of becoming one of the ten largest global producers by 2023. New land has been cleared and planted in sugar cane. Some cotton fields have even been converted to sugar. There are more than ten new sugar factories in various stages of development. In addition, there are three older operations, which currently account for around 90 percent of the country's sugar production, that have recently been refurbished. (Refer to figure 1 for factory locations.) However, the opening of some of these new sugar-processing facilities is behind schedule. At the same time, there are large areas planted in sugarcane that are going unused because some factories are not fully operational.

This lack of synchronization between sugar cane production and processing, combined with several other factors, has kept the country from reaching its production targets as contained in the first phase of the Growth and Transformation Plan (GTPI). In particular, at the end of the GTPI in 2014/15, sugar production was supposed to reach 2.25 million metric tons. However, actual production was closer to 330,000 metric tons, roughly 15 percent of the GTPI target. See table 3 for GTP sugar production targets.

Looking ahead, Ethiopia is expected to resolve these synchronization challenges, which is expected to lead to higher levels of sugar production in the country. The government projects that by the end of the second five-year phase of the GTP (GTPII) in 2019/20, production will reach almost 4.0 million metric tons, of which three-quarters will be allocated for export. While production will most certainly increase, post does not expect it will reach the government's intended target in the desired timeframe.

Table 1: Sugar Production	
Marketing Year	Metric Tons

2012/13	232,357
2013/14	280,000
2014/15	330,000
2015/16 a/	350,000
2016/17 a/	370,000

Source: ESC a/ Post estimate

Factories Under Construction	Estimated Capacity (MT)
Arjo-Dedesa	212,000
Kuraz (5 factories)	1,946,000
Tendaho (phases I & II)	443,000
Walkaiyt	484,000
Belles (3 factories)	726,000
Kessem	260,000
Sub Total	4,071,000
Refurbished Older Factories	
Wonji	220,700
Metahara	136,692
Fincha	270,000
Sub Total	627,392
Grand Total	4,698,392

Source: ESC website

Note: The estimated capacity figures are based on best case scenarios and will likely be revised downward in the future given the variability of conditions on the ground.

	2010/11		2011/12		2012/13		2013/14		2014/15	
	Plan	Actual								
Production	0.74	0.27	0.49	0.23	0.49	0.28	1.59	0.28	2.25	0.33
Exports	-	-	-	-	-	-	0.658	0	1.25	0

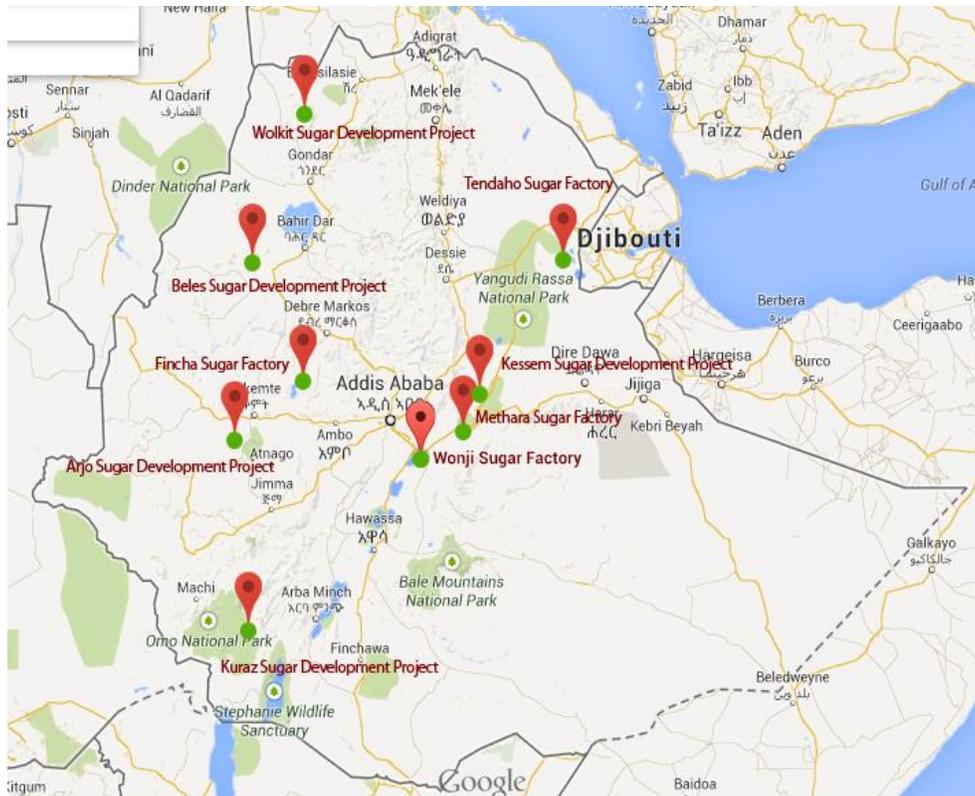


Figure 1: Location of sugar factories in Ethiopia (Source: ESC)

Consumption:

Sugar consumption is forecast at 710,000 metric tons in MY16/17, up by 20,000 metric tons from the previous year's newly revised estimate because of increased demand. Almost half of consumption is made up of imported sugar. In the future, consumption is expected to keep growing as consumer demand rises for soft drinks, beverages, confectionary products, and other sugar-containing processed products. In fact, the room for growth is significant when considering that Ethiopia's per capita sugar consumption of just 6 kilograms is one of the lowest in the world.

The Ministry of Trade and the Ethiopia Sugar Corporation (ESC) set sugar allocations for end users, manage distribution, fix domestic prices, and manages most sugar imports. The total allocation for MY15/16 is estimated at 555,000 metric tons, of which 350,000 metric tons is locally-produced sugar and 205,000 metric tons is government-imported sugar. Approximately 75 percent of the total allocation, or roughly 410,000 metric tons, goes for home-use. The remaining 145,000 metric tons is for industrial use, such as soft drink and beverage manufacturing. In addition, for this period, there is an estimated 135,000 metric tons of sugar imported outside of government channels, which supplements both home and industrial use.

While the government recently raised the price of sugar from \$0.75/kg to \$.090/kg, this increase is not expected to noticeably depress consumption because consumer demand remains so strong. In fact,

consumers often cannot get enough sugar because there are frequent shortages in the local market.

Trade:

Sugar imports are forecast at 350,000 metric tons in MY16/17, up 10,000 metric tons from the previous year because of the expected decline in production and strong demand. Of this forecasted amount, 210,000 metric tons will likely be purchased by the government. The remaining sugar is imported outside government channels, especially along the Somalia border where Ethiopian traders are bartering cattle for sugar. More than half of the sugar imported into the country comes from India.

Post is raising its MY15/16 import estimates to 340,000 metric tons, up from the official USDA estimate of 205,000 metric tons. Our estimate is increasing because we are not only including government-purchased sugar, but are now adding other formal sugar imports that are reflected in Ethiopia's official trade statistics.

In the future, the government hopes to discontinue imports and begin exporting sugar as local production increases. As previously mentioned, by the end of GTPII in 2019/20, the country's intention is to produce approximately 4.0 million metric tons of sugar, with roughly 3.0 million metric tons going for export. From post's perspective, this export target is too high given the growing consumer demand coming from inside the country.

Stocks:

Ending stocks for MY16/17 are estimated at 20,000 metric tons, up slightly from the previous year's levels.

Production, Supply and Demand for Sugar, Centrifugal (1000 MT)						
Sugar, Centrifugal Market Begin Year	2014/2015		2015/2016		2016/2017	
	May 2014		May 2015		May 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ethiopia						
Beginning Stocks	15	15	10	10	0	10
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	330	330	400	350	0	370
Total Sugar Production	330	330	400	350	0	370
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	215	215	205	340	0	350
Total Imports	215	215	205	340	0	350
Total Supply	560	560	615	700	0	730
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	550	550	595	690	0	710
Other Disappearance	0	0	0	0	0	0
Total Use	550	550	595	690	0	710
Ending Stocks	10	10	20	10	0	20
Total Distribution	560	560	615	700	0	730
(1000 MT)						