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Sugar Annual

2017

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Report Highlights:
Colombian sugar production is forecast to marginally increase to 2.35 million metric tons (MT) in marketing year (MY) 2017/18 from the 2.30 million metrics tons reached in MY 2016/17. Post estimates sugar exports to reach 650,000 MT in MY 2017/18, up three percent from the previous year. In calendar year (CY) 2016, Colombia filled the 53,000 MT export quota under the U.S.-Colombia Trade Promotion Agreement (CTPA).

Executive Summary:

Colombian sugar production is forecast at 2.35 million MT in MY 2017/18 up 50,000 MT from the previous year as weather conditions are expected to be favorable. Despite that high international sugar prices could stimulate sugarcane area expansion, the area available for sugarcane in the Cauca river valley is virtually all planted and the expansion would be marginal. The increases in productivity are the outcome of technology improvements and better weather. Ethanol productive capacity expanded to reach 1.65 million liters per day as a new plant entered operations adding about 400,000 liters a day. Sugar exports will increase five percent to 630,000 MT in MY 2016/17; furthermore Colombian sugar exports are forecast to marginally increase to reach 650,000 MT in MY 2017/18, primarily as a result of better international prices and strong dollar. The quota for 2017 under the CTPA is 53,750 MT for Colombian raw sugar equivalent.

Commodities:

Sugar, Centrifugal

Production:

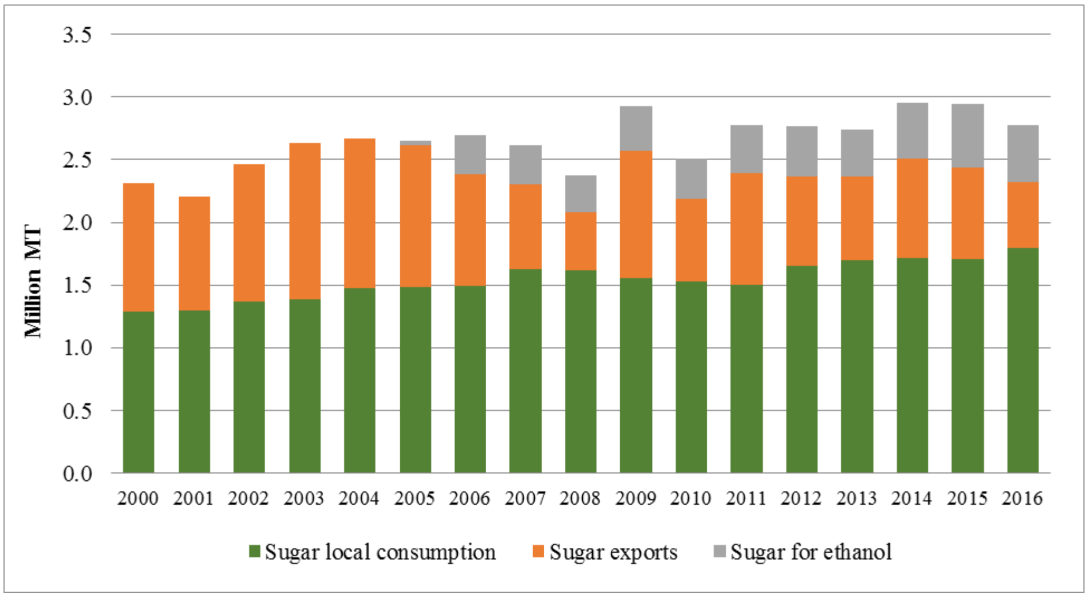
In MY 2017/18, Post projects that sugar production will reach 2.35 million MT, about two percent higher than the previous year. Colombian sugarcane production continues to recover to reach historical averages as weather improves. Dry conditions experienced in 2016 as a result of "El Niño" had a positive effect on sugar cane productivity given that longer daylight increases the sucrose content of the cane; but water scarcity affected some crops during the growing stage. According to the Colombian Institute of Meteorology (IDEAM), the probability of occurrence of La Niña weather phenomena in 2017 decreased and normal weather conditions are forecast, however sugar sector representatives remain cautious about the lingering effects from heavy rains in March and April 2017, which have complicated sugarcane harvest.

Given weather volatility, new sugarcane areas are planted with technological improvements and seed varieties that are better adapted to climate change. These new seeds and technologies have been developed by the Colombian Sugar Industry Research Center (CENICAÑA).

Colombian sugar cane is harvested year-round with a continuous process of harvesting, milling and ethanol distilling. Cane sugar production and processing are heavily concentrated in the Cauca river valley due to the appropriate climate and the density of mills and distilleries that support economies of scale over other regions of Colombia. In the Cauca river valley alone there are fifteen mills and six ethanol distilleries.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area with the rest of the land idle as part of a land management strategy. There are about 232,000 hectares of cane sugar area planted in the Cauca river valley, which is close to the total area available that can be planted. The Cauca river valley is one of the most efficient sugarcane producing regions in South America, yielding on average approximately 120 MT per hectare.

The Colombian sugar industry is highly vertically integrated with only a few companies managing all the sugar cane production and processing for ethanol, power generation and the food industry. In 2005, distilleries began producing ethanol, impacting sugar production and distribution to local and external markets. Domestic ethanol demand has offset sugar exports significantly, about 30 to 40 percent annually since 2006 (see graph below). In 2016, ethanol production reached 434 million liters and plant capacity increased at approximately 1.65 million liters per day as a new facility boosted domestic capacity. In 2017, a new ethanol plant owned by the Colombian state-oil company started operations. This new distillery is located in Meta, out of the Cauca river valley sugar cluster, and it will process sugarcane for ethanol production only, being the first ethanol facility in Colombia not linked to the sugar industry.



Sugar cluster production. Source: Colombian Association of Sugar Producers - ASOCAÑA.

The price for local sugar in Colombia is mainly based on international sugar prices adjusted with transportation costs and import duties to the local market. The New York Commodity Exchange price is the basis for raw sugar and the London Sugar Exchange price is the basis for refined or white sugar, to which local transportation costs and duties are added.

Non-Centrifugal Sugar:

According to the United Nations Food and Agriculture Organization (FAO), Colombia accounts for 15 percent of non-centrifugal sugar production in the world, being the second largest producer after India. There are an estimated 350,000 non-centrifugal sugar (known as panela) farmers with 80 percent of production occurring on farms of less than five hectares. Colombian sugarcane area planted for panela is 320,000 Ha, with dispersed areas of production and thousands of low technology crushing/milling facilities. In CY 2015, Colombian non-centrifugal sugar production reached 1.5 million MT, a seven percent increase from the previous year. Post expects no significant changes in panela's production for 2016 and 2017.

Consumption:

In MY 2017/18, Colombian sugar consumption is estimated at 1.83 million MT. Consumption is driven by demand from the confectionary sector to satisfy increased exports of processed food products. Sugar mills prefer to produce refined sugar for Colombian market because of higher prices and higher returns compared to raw sugar. Raw sugar is mainly exported to foreign markets, to satisfy the U.S. sugar quota and demand in Europe. ASOCAÑA estimates sugar annual per capita consumption at 75 pounds (34 kilograms). For panela, Colombian annual per capita consumption is estimated at 55 pounds (25 kilograms), the highest in the world according to FAO.

Trade:

Colombia is a net exporter of sugar. Exports of sugar are sensitive to international prices and to domestic increases in ethanol production. International prices have shown upward trend since late 2015 as a result of difficult weather conditions in the main producing countries. Post estimates that high international prices and strong dollar will motivate Colombian industry to increase exports. Post forecasts that exports will increase to 630,000 MT for MY 2016/17 and also estimates that exports will further increase to 650,000 MT in MY 2017/18.

In 2016, Peru was the top destination for Colombian sugar exports with around 36 percent market share. The next largest markets for Colombian sugar are the United States (12.0%), Haiti (10.0%) and Ecuador (9.7%).

Colombia is able to export sugar to the United States under both the World Trade Organization (WTO) and CTPA quotas. In MY 2015/16, the WTO quota, including additional allocations, was 28,710 metric tons raw value (MTRV) and it was fully subscribed. In MY 2016/17, the WTO quota is 25,273 MTRV. In CY 2016, the CTPA quota was 53,000 MT and it was also fully subscribed. In CY 2017, Colombia will likely fill the CTPA quota of 53,750 MT.

Colombia's sugar imports reached 185,000 MT in MY 2015/16. Post estimates that imports will fall to 140,000 MT in MY 2016/17, and will decrease again to 130,000 MT in MY 2017/18 given the increase in domestic production. In MY 2015/16, Ecuador, Peru and Brazil made up 84 percent of total Colombian imports. Sugar imports from Ecuador, Bolivia and Peru enter duty free under trade preferences with the Andean Community of Nations (CAN). Brazil is subject to a lower duty under a regional trade pact, the Latin American Integration Association (LAIA).

Stocks:

Colombia produces sugar year-round and is able to meet domestic demand without supply disruptions. There are no Colombian government programs or incentives for sugar mills to hold inventories. According to Post contacts, mills can hold stocks for a short timeframe to meet more immediate processing needs. Post is revising private sector sugar inventories for both domestic and export markets at 195,000 MT in MY 2016/17. In MY 2017/18, Post forecasts ending inventories to marginally fall to 190,000 MT.

Policy:

Sugar Price Stabilization Fund (PSF)
Colombia is a net exporter of sugar with production satisfying both domestic sugar demand and raw cane for ethanol distilling. The PSF mechanism was established in 2001 to avoid oversupply and low prices in the domestic sugar market. Given thin margins for sugar mills, low prices would create an economic burden to milling operations. The PSF provides incentives for sugar exports by hedging against domestic and international market price differentials, setting a market weighted average price (MWAP). Historically, domestic sugar prices are higher than export prices (except for U.S. export prices under quota). Milling operations that sell sugar at prices above the MWAP, or typically the domestic market, will contribute the difference to the PSF. Those that sell sugar at prices below the MWAP, on the other hand, will receive the difference in compensation from the PSF.

Price Band
Sugar imports from the Andean Community countries (Peru, Ecuador and Bolivia) are allowed duty-free entry into Colombia. Imports from outside the CAN are subject to a variable duty under the price band system. The basic duty rate on imports of raw and refined sugar from non-CAN countries is 15 percent.

The CAN revises the price band, both ceiling and floor, every April. The duty adjustment is made based on whether a reference price is above, below or within the ceiling and floor price. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the sugar import duty is set at a 15 percent of the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. When the reference price exceeds the ceiling price, however, a reduction is made to the applied duty rate based upon the difference between the reference and the ceiling price.

On November 2015, the Colombian Ministry of Commerce issued the decree 2293 that lowered the maximum variable surcharge tariff for sugar and sugar products by 47 percent from its previous duty (117 percent). For the next three years, the maximum variable duty applied to sugar imports is 70 percent. The high inflation rate and pressure from the processed food industry, prompted the Government of Colombia to issue this decree in order to stabilize food prices.

The CAN price band to be applied for the period of April 2017 to March 2018 is illustrated below:

CAN Price Band April 2017 to March 2018				
	Floor Price *USD per ton* *April / March*		***Ceiling Price*** *USD per ton* *April / March*	
	2016/17	**2017/18**	**2016/17**	**2017/18**
Raw Sugar	$475	$425	$612	$510
Refined Sugar	$576	$524	$721	$618

For the first two weeks of April 2017, reference prices for raw ($439/ton) and refined sugar ($552/ton) are within the ceiling and floor price. Thus, Colombia's current total effective duty, which is the basic duty, on imports of raw and refined sugar is 15 percent.

U.S.-Colombia Trade Promotion Agreement (CTPA)

On May 15, 2012, the CTPA went into force. The CTPA eliminated the price band duty for imports from the United States. For 2017, the current Tariff-Rate-Quota for glucose, which includes high-fructose corn syrup, is 13,401 MT and will continue to increase 5% annually. As well, the import duty beyond quota will be reduced from the initial 28% at 2.8% annually as part of a 10-year phase-out period. In CY 2017, the duty on out-of-quota glucose imports from the United States is 11.2 percent. In CY 2017, Colombia sugar export quota under the CTPA is 53,750 MT.

CAN and Southern Common Market (MERCOSUR)

CAN members have duty free access to Colombia's sugar market. Under the Colombia/MERCOSUR free trade agreement, which began in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant trade preferences under previous bilateral agreements, such as LAIA, where MERCOSUR members pay only a percentage of the basic duty rate. The actual duties paid under regional preferential duties are as follows: Argentina (13.2%), Brazil (13.2%), Paraguay (9.0%), and Uruguay (12.0%).

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	**2015/2016**		**2016/2017**		**2017/2018**	
Market Begin Year	**Oct 2015**		**Oct 2016**		**Oct 2017**	
Colombia	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	205	205	180	215	0	195
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2250	2250	2320	2300	0	2350
Total Sugar Production	2250	2250	2320	2300	0	2350
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	135	185	135	140	0	130
Total Imports	135	185	135	140	0	130
Total Supply	2590	2640	2635	2655	0	2675
Raw Exports	150	150	150	150	0	150
Refined Exp.(Raw Val)	450	450	450	480	0	500
Total Exports	600	600	600	630	0	650
Human Dom. Consumption	1805	1820	1764	1825	0	1830
Other Disappearance	5	5	5	5	0	5
Total Use	1810	1825	1769	1830	0	1835
Ending Stocks	180	215	266	195	0	190
Total Distribution	2590	2640	2635	2655	0	2675
(1000 MT)						