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Colombia

Sugar Annual

Colombian Sugar Industry Maintains High Production Levels

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Report Highlights:

Colombian raw sugar production is estimated to be 2.4 million metric tons (MT) in marketing year (MY) 2018/2019, with no changes in MY 2019/20. In MY 2017/18, Colombia sugarcane production recovered to reach high historical averages as weather conditions improved after three years of extreme climate volatility such as drought followed by heavy rains. Post estimates sugar exports to reach 700,000 MT in MY 2018/19, and remain unchanged in MY 2019/20. In calendar year (CY) 2018, Colombia filled the 54,500 MT export quota under the U.S.-Colombia Trade Promotion Agreement (CTPA) and the 25,273 sugar quota under the World Trade Organization (WTO) agreement. Colombia is expected to fulfill its 2019 U.S. sugar quotas and additional volume, if demanded.

Executive Summary:

Colombian sugar production is estimated to remain at 2.4 million MT in MY 2019/20, driven by better weather conditions and increased productivity. Sugarcane production has increased at a higher pace, but sugar production will not follow this trend as part of the sugarcane crop will be devoted to satisfy the increasing demand for ethanol given a higher biofuel blend mandate. Weather conditions are expected to be normal, with low probability of occurrence of El Niño weather phenomena.

The area available for sugarcane in the Cauca river valley is virtually all planted and changes in area expansion are marginal. The increases in productivity are the outcome of technology improvements and favorable weather conditions.

Sugar exports are forecast to maintain at 700,000 MT in MY 2018/19 paralleling the increase in production, with no expected changes in MY 2019/20. Peru, Chile and the United States are the largest markets for Colombian sugar exports. Colombia is able to export sugar to the United States under the World Trade Organization (WTO) and CTPA quotas. Post estimates both quotas will be fully subscribed.

Commodities:

Sugar, Centrifugal

Production:

In MY 2018/19, Colombia sugar production is estimated to be 2.4 million MT if weather conditions continue to be normal. Since late 2017, sugarcane production has been recovering after three years of difficult climate. In fact, in calendar year (CY) 2018, sugarcane crushing reached a historically high level, a 12 percent increase from the past ten years average. In MY 2019/20, Colombia sugar production is forecast to remain unchanged at 2.4 million MT.

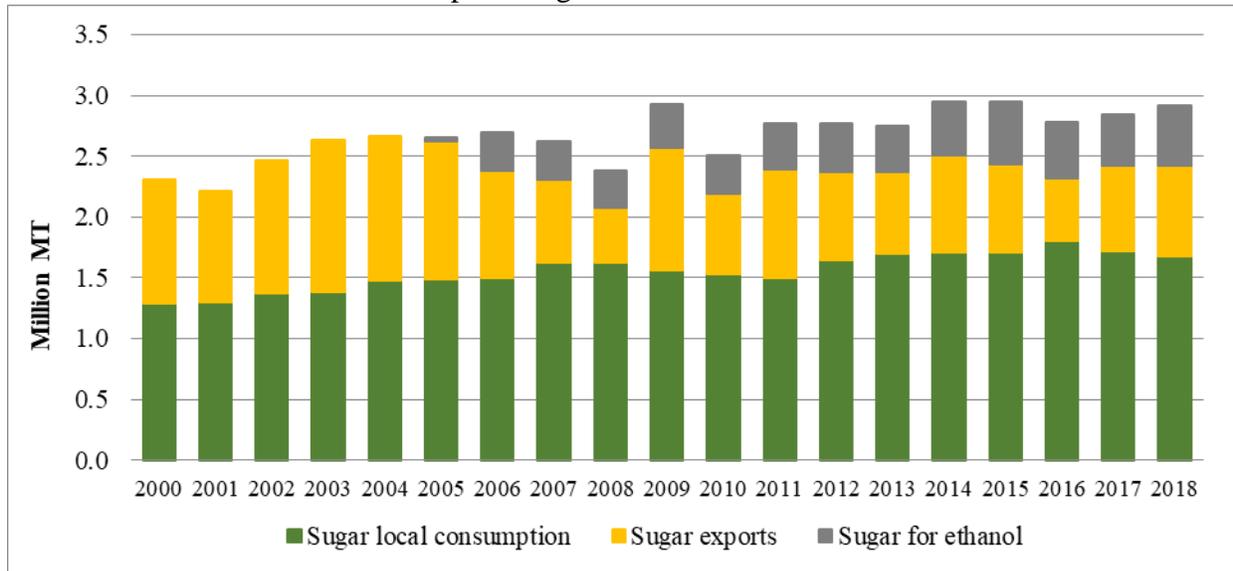
Colombia has a permanent sugar production all year long. Changes in sugar production in Colombia depend on climate factors and /or technological changes, given that as of today, sugar production is set in the geographical valley of the Cauca river and its area available for sugarcane are almost completely planted.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area and the rest of the land remains idle as part of a land management strategy. There are about 240,000 hectares of sugarcane planted in the Cauca river valley, which is close to the total agricultural land available that can be planted in the region. The Cauca river valley is one of the most efficient sugarcane producing regions in South America, yielding on average approximately 120 MT per hectare. In the valley alone there are fifteen mills and six ethanol distilleries.

In addition, the production of fuel ethanol limits the increase in sugar production as sugarcane is devoted to ethanol. The facilities for ethanol and sugar production are located one near to the other which makes it more efficient for the input of sugarcane to be devoted for processing either product.

Since distilleries began producing ethanol in 2005, domestic ethanol demand has offset sugar exports significantly, about 30 to 40 percent annually (see graph below). In 2018, ethanol production increased to 467 million liters to satisfy the higher ethanol blend mandate (E10) established by the Colombian government. This increase did not affect sugar exports given the growth in sugarcane crushing this year.

Graph 1. Sugar Cluster Production



Source: Colombian Association of Sugar Producers (Asocaña).

Non-Centrifugal Sugar:

Sugarcane for non-centrifugal sugar (known as panela) is planted in dispersed areas countrywide, with the production concentrated in the departments of Cundinamarca, Antioquia, Boyaca and Santander. There are an estimated 350,000 non-centrifugal sugar farmers and 18,500 crushing/milling facilities. Colombian sugarcane area planted for panela has contracted to 250,000 Ha as panela production is driven by domestic prices that have been low. The reduction in area has been partly compensated by improving yields given good climate and better technologies adopted by some milling facilities. In CY 2018, Colombian non-centrifugal sugar production reached 1.6 million MT. Post expects no significant changes in panela's production for 2019.

Consumption:

In MY 2019/20, Colombian sugar consumption is forecast at 1.9 million MT, a three percent increase from the previous marketing year. Colombian sugar consumption is price inelastic; therefore consumption trends will likely parallel population growth with demand gradually increasing each year. An additional factor that drives sugar consumption is the demand from the confectionary sector to satisfy increased exports of processed food products.

Sugar mills prefer to produce refined sugar for the 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. and European Union sugar quotas and meet the demand of the Andean Community countries. Asocaña estimates sugar annual per capita consumption at 75 pounds (34 kilograms). For panela, Colombian annual per capita consumption has contracted to 42 pounds (19 kilograms). Based on total per capita consumption of sugar, Post revised total consumption estimates downward.

Trade:

In MY 2017/18, sugar imports decreased by 53 percent from the previous year as result of increased production that allowed sugar industry to recover domestic market share. Sugar exports increased by five percent following increased production.

In MY 2019/20 sugar exports are forecast to remain at 700,000 MT. Colombia is a net exporter of sugar, and exports are sensitive to international prices and to domestic increases in ethanol production.

Colombia is able to export sugar to the United States under both the World Trade Organization (WTO) and CTPA quotas. In FY 2018, the WTO quota, without additional allocations, was 25,273 metric tons raw value (MTRV) and it was fully subscribed. In CY 2018, the CTPA quota was 54,500 MT and it was also fully subscribed. In CY 2019, Colombia will likely fill the CTPA quota of 55,250 MT, as well as the FY 2019 WTO quota of 25,273 MT.

In MY 2017/18, Peru was the top destination for Colombian sugar accounting for 30 percent of total sugar exports. The next largest markets for Colombian sugar were Chile (10.0%) and the United States (10.0%). Exports to Ecuador decreased as a result of safeguards implemented against Andean Community of Nations (CAN) countries, including Colombia.

Table 1. Colombia Sugar Exports (Raw Value)

Partner Country	Unit	Total Imports (Raw value)			% Share		
		M7 2016	MY 2017	MY 2018	M7 2016	MY 2017	MY 2018
World	T	583,990	694,637	731,337			
Peru	T	230,068	240,960	222,188	39%	35%	30%
Chile	T	67,489	66,469	112,279	12%	10%	15%
United States	T	48,474	66,018	104,450	8%	10%	14%
Ecuador	T	54,883	88,461	67,045	9%	13%	9%
Haiti	T	44,432	65,118	61,683	8%	9%	8%
China	T	25	-	31,368	0%	0%	4%
Jamaica	T	10,546	13,804	16,615	2%	2%	2%
Trinidad & Tobago	T	16,872	18,089	16,468	3%	3%	2%
Venezuela	T	29	1,117	14,050	0%	0%	2%
Belgium	T	5,122	5,865	9,266	1%	1%	1%
Germany	T	11,863	10,200	8,180	2%	1%	1%
Spain	T	18,215	35,718	7,951	3%	5%	1%
Netherlands	T	10,727	9,176	6,705	2%	1%	1%
Canada	T	3,141	9,388	6,250	1%	1%	1%
Others	T	62,104	64,254	46,839	11%	9%	6%

Source: DIAN-Global Trade Atlas.

In MY 2019/20, sugar imports are forecast to 160,000 MT, a seven percent increase from the previous year (150,000) to satisfy domestic demand given increasing ethanol production. Imports are expected to grow at a slower pace as domestic production maintains high levels. In MY 2017/18, Brazil, Bolivia and Peru made up 86 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).

Table 2. Colombia Sugar Imports (Raw Value)

Partner Country	Unit	Total Imports (Raw value)			% Share		
		M7 2016	MY 2017	MY 2018	M7 2016	MY 2017	MY 2018
World	T	195,487	246,956	115,873			
Brazil	T	51,521	97,043	36,512	26%	39%	32%
Bolivia	T	17,798	7,423	33,123	9%	3%	29%
Peru	T	53,517	32,231	29,430	27%	13%	25%
Ecuador	T	58,698	71,800	11,665	30%	29%	10%
Guatemala	T	8,988	14,954	3,828	5%	6%	3%
Others	T	4,965	23,506	1,314	3%	10%	1%

Source: DIAN-Global Trade Atlas.

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. In MY 2019/20, Post estimates beginning stocks to increase to 277,000 MT following increasing production. Ending stocks are expected to marginally decrease to 227,000 MT.

Policy:

The Sugar Price Stabilization Fund (FEPA for its acronym in Spanish)

The FEPA mechanism was established in 2000 through the Decree 569. It was created to avoid oversupply and low prices in the domestic sugar market maintaining a price equilibrium. The Colombian National Association of Sugar Producers (Asocaña) administers it. The Colombian Minister of Agriculture chairs FEPA's board, and its members include the Colombian Minister of Trade and 11 sugarcane growers and mills.

The FEPA 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 FEPA. Those that sell sugar at prices below the MWAP, on the other hand, will receive the difference in compensation from the FEPA.

Asocaña conducts a monthly calculation to determine contribution and/or compensation values for each sugar mill. It is estimated that in 2017, total sugar domestic sales and exports amounted to 2.6 million MT and FEPA's compensations to sugar exporters were valued at approximately \$18 million dollars.

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 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.

The CAN price band to be applied for the period of April 2019 to March 2020 is illustrated below:

Table 3. CAN Floor and Ceiling Prices for Sugar
April 2019 to March 2020
USD per Ton

	<i>Floor Price CIF</i>	<i>Ceiling Price CIF</i>
Refined sugar	470	546
Raw sugar	381	451

Source: Resolution 2036/2018, CAN.

For the first two weeks of April 2018, reference prices for raw (\$315/ton) and refined sugar (\$386/ton) are below the floor price. Thus, Colombia's current total effective duty on imports of raw sugar is 46 percent and on imports of refined sugar is 48 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 calendar year (CY) 2019, the import tariff-rate-quota for glucose, which includes high-fructose corn syrup, is 14,775 MT and will continue to increase five percent annually. In CY 2019, the duty on out-of-quota glucose imports from the United States is 5.6 percent. In CY 2019, the Colombia sugar export quota under the CTPA is 55,250 MT, which is usually fully subscribed. It increases by 750 MT annually.

CAN and Southern Common Market (MERCOSUR)

CAN members have duty free access to Colombia's sugar market. In 2018, Ecuador implemented safeguards against CAN countries, reducing the trade of sugar. Ecuador established a duty free quota for Colombian exports up to 17,229 MT, which requires prior government authorization.

Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin under the Colombia/MERCOSUR free trade agreement. However, Colombia continues to grant trade preferences under previous bilateral agreements, such as the Latin American Integration Association (LAIA), where MERCOSUR members pay only a percentage of the basic duty rate.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Market Begin Year	2017/2018		2018/2019		2019/2020	
	Oct 2017		Oct 2018		Oct 2019	
Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	162	162	277	277	0	272

Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2500	2500	2400	2400	0	2400
Total Sugar Production	2500	2500	2400	2400	0	2400
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	260	120	280	150	0	160
Total Imports	260	120	280	150	0	160
Total Supply	2922	2782	2957	2827	0	2852
Raw Exports	200	250	200	200	0	200
Refined Exp.(Raw Val)	500	450	500	500	0	500
Total Exports	700	700	700	700	0	700
Human Dom. Consumption	1940	1800	1980	1850	0	1900
Other Disappearance	5	5	5	5	0	5
Total Use	1945	1805	1985	1855	0	1905
Ending Stocks	277	277	272	272	0	227
Total Distribution	2922	2782	2957	2827	0	2852
(1000 MT)						

Sugar Cane for Centrifugal Market Begin Year	2017/2018		2018/2019		2019/2020	
	Sep 2017		Sep 2018		Sep 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Colombia						
Area Planted	242	242	240	240	0	240
Area Harvested	205	205	200	200	0	200
Production	24800	24800	24000	24000	0	24000
Total Supply	24800	24800	24000	24000	0	24000
Utilization for Sugar	20800	20800	19800	19800	0	19800
Utilizatn for Alcohol	4000	4000	4200	4200	0	4200
Total Utilization	24800	24800	24000	24000	0	24000
(1000 HA) ,(1000 MT)						