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Colombia

Sugar Annual

Colombian Sugar Production Bounces Back after Three Years of Difficult Weather Conditions

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Report Highlights:
Colombian raw sugar production is estimated to increase to 2.5 million metric tons (MT) in marketing year (MY) 2017/2018. Colombia sugarcane production is expected to recover to reach high historical averages as weather conditions improve after three years of extreme climate volatility such as drought followed by heavy rains. In MY 2018/19, sugar production is forecast to decrease slightly to 2.4 million MT if ethanol production increases and the lingering effects from the low intensity La Niña weather phenomena affect the harvest process. Post estimates sugar exports to reach 700,000 MT in MY 2017/18, up one percent from the previous year, and remain unchanged in MY 2018/19. In calendar year (CY) 2017, Colombia filled the 53,750 MT export quota under the U.S.-Colombia Trade Promotion Agreement (CTPA).

Executive Summary:

Colombian sugar production is estimated at 2.5 million MT in MY 2017/18, up 200,000 MT from the previous year. This increase has been motivated by better weather conditions and more sugarcane available for sugar production given lower production of ethanol. In MY 2018/19, Post forecasts sugar production will decrease by 100,000 MT if ethanol production increases driven by a higher ethanol blend mandate and sugarcane harvest process is affected by the low intensity effects from La Niña 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 estimated to increase one percent to 700,000 MT in MY 2017/18 paralleling the increase in production, with no expected changes in MY 2018/19. Peru, Ecuador, 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. The U.S. quota for 2018 under the CTPA is 54,500 MT and for fiscal (FY) year 2018 under the WTO is 25,273 MT. Post estimates both quotas will be fully subscribed.

Commodities:

Sugar, Centrifugal

Production:

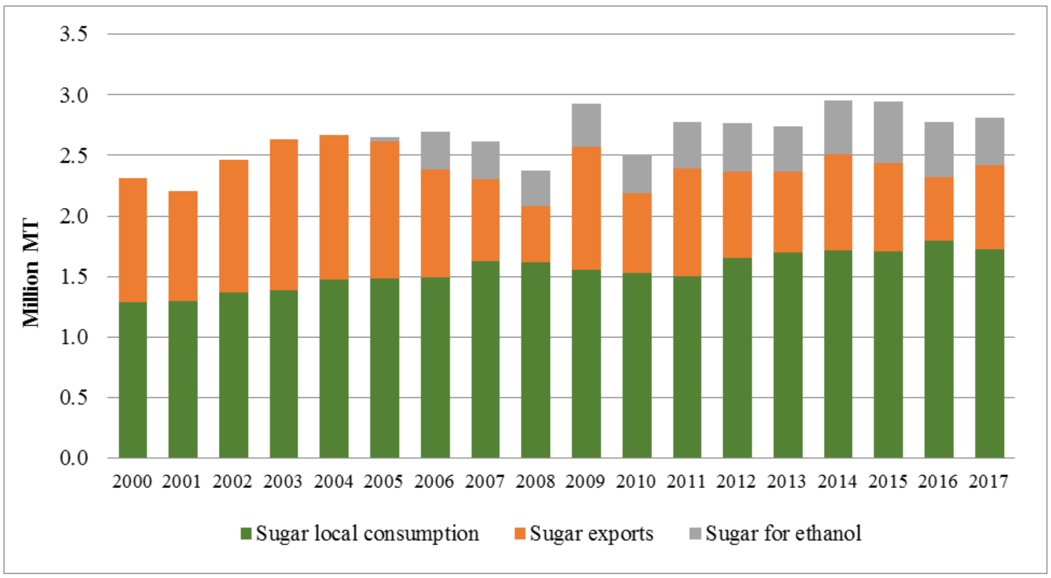
In MY 2017/18, Colombia sugar production is expected to increase to 2.5 million MT due to favorable weather conditions and more sugarcane available for sugar production. Most of the distilleries decreased their ethanol production in 2017 given import competition. In MY 2018/19, sugar production is forecast to be 2.4 million MT. This 100,000 MT decrease is a result of expected heavy rains from La Niña weather phenomena that will complicate the sugarcane harvest. In addition, ethanol distilleries will increase production as a higher ethanol blend mandate was established by the Colombian Government beginning on March 1, 2018.

Colombia harvests sugarcane all year round in the Cauca river valley, which makes sugar and ethanol production a continuous process. Sugarcane areas, sugar mills and most ethanol facilities are located in this valley. This situation sets a geographic limit to the area where sugarcane is economically efficient, and when ethanol facilities came online, the area available was almost fully utilized. Since then, changes in the area planted have been marginal.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area with 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.

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

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 2017, ethanol production decreased to 384 million liters. Despite plant capacity having increased to approximately 1.65 million liters per day, sugar mills preferred to produce sugar for exports instead of ethanol given strong competition of ethanol imports. In addition, 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. It is 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 based on international sugar prices adjusted for 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:

Sugarcane for non-centrifugal sugar (known as panela) is planted in dispersed areas countrywide, with the most productive area in the Suarez river basin in the departments of Santander and Boyaca. There are an estimated 350,000 non-centrifugal sugar 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 thousands of low technology crushing/milling facilities. In CY 2016, Colombian non-centrifugal sugar production reached 1.6 million MT. Post expects no significant changes in panela's production for 2017 and 2018.

Consumption:

In MY 2017/18, Colombian sugar consumption is estimated at 1.94 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 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. sugar quota and meet Andean Community countries demand. 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 the Food and Agriculture Organization of the United Nations.

Trade:

Colombia is a net exporter of sugar. Exports of sugar are sensitive to international prices and to domestic increases in ethanol production. In MY 2016/17, high international prices, a strong dollar and ethanol import competition motivated the Colombian industry to increase sugar exports to 695,000 MT. Post estimates that exports will increase to 700,000 MT for MY 2017/18, with no significant changes in MY 2018/19.

In MY 2016/17, Peru was the top destination for Colombian sugar accounting for 35 percent of total sugar exports. The next largest markets for Colombian sugar were Ecuador (13.0%), Chile (10.0%) and the United States (10.0%).

Colombia is able to export sugar to the United States under both the World Trade Organization (WTO) and CTPA quotas. In FY 2017, the WTO quota, including additional allocations, was 36,621 metric tons raw value (MTRV) and it was fully subscribed. In CY 2017, the CTPA quota was 53,750 MT and it was also fully subscribed. In CY 2018, Colombia will likely fill the CTPA quota of 54,500 MT, as well as the FY 2018 WTO quota of 25,273 MT.

Colombia’s sugar imports reached 247,000 MT in MY 2016/17. Post estimates that imports will increase to 260,000 MT in MY 2017/18 and will increase again to 280,000 MT in MY 2018/19 given the increase in sugar exports and ethanol production. In MY 2016/17, Brazil, Ecuador, Peru and Guatemala made up 87 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).

Year Ending: September							
Partner Country	Unit	Total Exports (Raw Value)			% Share		
		2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
World	T	834,424	583,995	694,642	100%	99%	100%
Peru	T	233,843	230,068	240,960	28%	39%	35%
Ecuador	T	30,851	54,883	88,462	4%	9%	13%
Chile	T	168,510	67,489	66,468	20%	12%	10%
United States	T	82,706	48,476	66,018	10%	8%	10%
Haiti	T	75,299	44,432	65,117	9%	8%	9%
Spain	T	13,238	18,215	35,718	2%	3%	5%
Trinidad & Tobago	T	31,732	16,872	18,089	4%	3%	3%
Jamaica	T	36,665	10,546	13,804	4%	2%	2%
Puerto Rico (U.S.)	T	11,189	3,771	12,622	1%	1%	2%
Germany	T	8,112	11,863	10,199	1%	2%	1%
Myanmar	T	-	-	10,093	0%	0%	1%
Canada	T	5,263	3,141	9,388	1%	1%	1%
Netherlands	T	11,276	10,726	9,176	1%	2%	1%
Italy	T	7,545	13,062	7,027	1%	2%	1%
Belgium	T	2,004	5,122	5,864	0%	1%	1%
Guyana	T	7,259	4,225	3,940	1%	1%	1%
Russia	T	4,481	4,645	3,606	1%	1%	1%
Suriname	T	10,917	7,145	2,459	1%	1%	0%
United Kingdom	T	1,937	3,223	2,392	0%	1%	0%
France	T	1,771	3,479	2,094	0%	1%	0%
Curacao	T	807	3,579	1,922	0%	1%	0%
Greece	T	1,148	1,771	1,910	0%	0%	0%
Dominican Republic	T	10,872	2,952	1,908	1%	1%	0%
Others	T	77,000	14,311	15,406	9%	2%	2%

Export Trade Matrix. 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. Post is revising private sector sugar inventories for both domestic and export markets to162,000 MT in MY 2016/17 as more sugar was exported. In MY 2017/18, Post estimates ending inventories to increase to 277,000 MT and marginally decreasing to 272,000 MT in MY 2018/19.

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 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 2018 to March 2019 is illustrated below:

CAN Price Band April 2018 to March 2019				
	Floor Price CIF *USD per ton April / March*		***Ceiling Price CIF*** *USD per ton April / March*	
	2017/18	**2018/19**	**2017/18**	**2018/19**
Raw Sugar	$425	$401	$510	$462
Refined Sugar	$524	$496	$618	$563

Source: Resolutions 1891/2016 & 1969/2017. 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) 2018, the Tariff-Rate-Quota for glucose, which includes high-fructose corn syrup, is 14,071 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 2018, the duty on out-of-quota glucose imports from the United States is 8.4 percent. In CY 2018, the Colombia sugar export quota under the CTPA is 54,500 MT, which is normally fully subscribed.

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 the Latin American Integration Association (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 (42.24%), Brazil (42.24%), Paraguay (31.68%), and Uruguay (38.4%).

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Sep 2016		Sep 2017		Sep 2018	
Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	240	0	242	0	240
Area Harvested	0	200	0	205	0	200
Production	0	23600	0	24800	0	24000
Total Supply	0	23600	0	24800	0	24000
Utilization for Sugar	0	20000	0	20800	0	19800
Utilizatn for Alcohol	0	3600	0	4000	0	4200
Total Utilization	0	23600	0	24800	0	24000
(1000 HA) ,(1000 MT)						

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	215	215	255	162	0	277
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2300	2300	2350	2500	0	2400
Total Sugar Production	2300	2300	2350	2500	0	2400
Raw Imports	1	1	0	0	0	0
Refined Imp.(Raw Val)	280	246	290	260	0	280
Total Imports	281	247	290	260	0	280
Total Supply	2796	2762	2895	2922	0	2957
Raw Exports	175	210	180	200	0	200
Refined Exp.(Raw Val)	440	485	450	500	0	500
Total Exports	615	695	630	700	0	700
Human Dom. Consumption	1921	1900	1995	1940	0	1980
Other Disappearance	5	5	5	5	0	5
Total Use	1926	1905	2000	1945	0	1975
Ending Stocks	255	162	265	277	0	272
Total Distribution	2796	2762	2895	2922	0	2957
(1000 MT)						