Required Report - public distribution

Date: 4/15/2014

GAIN Report Number:

Colombia

Sugar Annual

Sugar Production Recovers to Normal Level

Approved By:
Joseph Lopez, Agricultural Counselor

Prepared By:
Anthony J. Gilbert, Agricultural Attaché Leonardo Pinzon,
Agricultural Specialist

Report Highlights:
Colombian sugar production in Marketing Year (MY) 2013/14 is expected to increase by a substantial 18 percent, leveling at 2.3 million metric tons (MMT) thus recovering production into its average. Sugar exports are projected at 580 thousand metric tons (TMT) in MY 2013/14, up 7 percent from the previous year. In 2013, Colombia undersubscribed the quota set at 50.5 TMT under the U.S.-Colombia Trade Promotion Agreement (CTPA).

Executive Summary:

Colombian sugar production is expected to increase to 2.3 MMT in MY 2013/14, an 18 percent recovery from MY 2012/13. The sugar production recovered from the damaged production areas of 2011 and part of 2012 heavy rain fall. The Cauca river valley in southwest Colombia is the primary growing region for cane sugar with area in production almost at full capacity with little land for expansion. Increases in productivity are the outcome of technology improvements and better weather. Ethanol distillery facility expansion is expected at the end of 2014. Sugar exports will increase 7 percent to 580 TMT in MY 2013/14, paralleling the increase in sugar production and Colombian sugar exports are forecasted to further increase to 600 TMT in MY 2014/15. On May 15, 2012, the CTPA implementation included a 50 TMT quota for Colombia of raw sugar equivalent, increasing to 51.5 TMT for CY 2014.

Commodities:

Sugar, Centrifugal

Production:

In MY 2013/14, Post projects that sugar production will increase to 2.3 MMT, about 18 percent higher than the previous year. Colombian sugarcane production is recovering as weather improves and longer daylight increase the sucrose content of the cane. Replanted sugar cane areas damaged by past rainfall entered into production which along with better weather increases cane harvesting and sugar production. In the last trimester (Oct-Dec) of 2013 cane milling increased by 39 percent along with 43 percent increase in sugar production.

The average good weather patterns in place since 2013 improved the sugarcane yield to 115 tons per hectare from 95 tons per hectare the year before. The excessive rains in 2011 damaged about 30 thousand hectares of land in production which were replanted in 2012 and are now entering into production. Post expectations for 2014 are that sugarcane yields will remain high as weather continues to improve. As a result, sugar production is forecast to sustain at 2.3 MMT in MY 2014/2015

Colombian sugar cane is harvested year-round, supporting a continuous process of harvesting, milling and distilling. Sugarcane production and processing are heavily concentrated in the Cauca river valley. The proper climate and the density of mills and distilleries support economies of scale for sugar cane production in Cauca over other regions of Colombia. In the Cauca river valley alone there are 13 mills and five ethanol distilleries with more distilleries coming online in the near future.

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. It is estimated at 225 thousand hectares of sugarcane area planted in the Cauca river valley, which is close to the total area available for sugarcane 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 metric tons (MT) per hectare. However, excessive rains have detrimentally impacted sugarcane area harvested and yields with lower than average production, down to about 80 MT per hectare in the more difficult times.

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 40 percent annually since 2006. In 2013, ethanol production reached 388 million liters and plant capacity remained at approximately 1.3 million liters per day.

The Colombian sugar industries research organization, CENICAÑA, has developed programs for land management to increase productivity, as well as researching sugarcane varieties that would better adapt to climate change and extreme variations in weather patterns.

Non-Centrifugal Sugar:

Colombia is the second largest non-centrifugal sugar producer known as Panela in the world after India, according to the United Nations Food and Agriculture Organization (FAO). There are an estimated 70 thousand Panela farmers with 80 percent of production occurring on farms of less than 5 hectares. The Panela sector employs approximately 120 thousand subsistence farmers throughout Colombia. Panela production is dispersed with thousands of low technology crushing facilities throughout Colombia. In 2013, Colombian non-centrifugal sugar production reached 1.14 MMT, a 1.6 percent decrease from the previous year.

Consumption: In MY 2013/14, Colombian sugar consumption is estimated at 1.97 million tons, a one percent increase from the year before. Consumption is driven by demand from the confectionary sector to satisfy increased exports of processed food products. Sugar mills prefer the Colombian refined sugar 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. For panela, Colombian per capita consumption is estimated at 25 kilograms annually, the highest in the world according to the 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 fell in 2013 for the second consecutive year; this scenario endorsed the sugar industry to partly switch to the local market given the stronger relative price and the steady economy growth. Post believes in 2013/14 local demand will continue strong as expected to absorb part of the increase in production, and the excess in production not utilized in the domestic market will be exported. Post estimate is that exports will increase to 580 TMT for 2013/14 and post forecast exports will further increase to 600 TMT in 2014/15.

In 2006, ethanol production went into the first full year of production, which resulted in Colombia needing to import sugar. Since then, Colombia's sugar imports started to capture a portion of the market, supplying eight percent of total local demand. Sugar imports in 2013 represented 19 percent of the domestic market.

Peru was the first destination for Colombian sugar exports, which in MY 2012/2013 reached 123 TMT, although exports lowered by 24 percent compared with a year earlier. The second largest markets for Colombian sugar were Chile, Haiti and the United States.

On May 15, 2012 the CTPA was implemented, and as a result, Colombia was able to export to the United States under both, the WTO quota and the CTPA quota, in total 43 TMT of sugar. In MY 2012/2013 Colombia exported nearly 50 percent less than the previous year undersubscribing the total quota assigned under the WTO and the CTPA of 74.7 TMT. For 2014 post expects Colombian sugar exports to the United States will fill at least the sugar quota assigned under the WTO commitment of 24 TMT. However, the TRQ under the CTPA for 2104 set at 51.5 TMT would be determined by international prices compared to local market prices.

Colombia's sugar imports reached again 332 TMT in MY 2012/13 a high historical level. Post expects imports to remain at 330 TMT in MY 2013/14 and continue at that strong level in MY 2014/2015. Colombian export competitiveness has been challenged as a result of a strong peso and lower international prices. In 2012/2013 MY Brazil, Bolivia, Peru supplied 91 percent of the total Colombian imports. Sugar imports from 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 preference pact: the Latin America Integration Association.

Stocks: Colombia produces sugar year-round and is able to meet domestic market demand without supply disruptions. There are no GOC programs or incentives for sugar mills to hold inventories, according to Post industry sources storage is for short timeframes to meet more immediate processing needs. Private sector sugar inventories for both domestic and export markets are projected to reach 195 TMT in MY 2013/14, a 63 percent increase from the previous year supported by the recovering in sugar production. In MY 2014/15, Post forecasts inventories to increase by 35 TMT.

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, the domestic sugar prices are higher than export prices, but not including the U.S. sugar 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 CAN countries are allowed duty-free entry into Colombia. Imports from outside the CAN are subject to a variable duty under a 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 or below the ceiling and floor price respectively. 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 20 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 from the period of April to March 2013/14 is illustrated below:

CAN Price Band April 2010 to March 2011				
	Floor Price *US$ per ton April / March*		***Ceiling Price*** *US$ per ton April / March*	
	2013/14	**2014/15**	**2013/14**	**2014/15**
Raw Sugar	$487	$512	$632	$635
Refined Sugar	$595	$625	$744	$747

Source: CAN

For the first two weeks of April 2014, the international reference prices for raw and refined sugar are set at $422 and $500 per ton. For both raw and refined sugar, the reference prices are below the floor price, so an additional variable duty are added to the basic duty, therefore, the duty for raw sugar will be 40 percent and 44 percent for refined sugar.

CTPA

On May 15, 2012, the CTPA was implemented. The implementation eliminated the price band duty for imports from the United States. For 2014, the agreement set a TRQ of 11,576 MT with a five percent annual increase for glucose, which includes high-fructose corn syrup. As well, the basic import duty beyond the quota will be reduced from the basic 28 percent by 2.8 percent annually until elimination at the end of the 10-year phase-out period. In 2014 the duty on out-of-quota glucose imports from the United States is 19.6 percent.

CAN and Southern Common Market (MERCOSUR)

CAN members (Peru, Ecuador and Bolivia) have duty free access to Colombia's sugar market. Under the Colombia/MERCOSUR free trade agreement, which entered into effect 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 are as follows: Argentina and Brazil 36 percent for raw and refined sugar; Paraguay 27 percent on raw and refined sugar; and Uruguay 32 percent on raw and refined sugar.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	335	335	300	120		195
Beet Sugar Production	0	0	0	0		0

Cane Sugar Production	2,210	1,950	2,400	2,300	2,300
Total Sugar Production	2,210	1,950	2,400	2,300	2,300
Raw Imports	0	0	0	0	0
Refined Imp.(Raw Val)	310	332	290	330	330
Total Imports	310	332	290	330	330
Total Supply	2,855	2,617	2,990	2,750	2,825
Raw Exports	150	130	150	150	130
Refined Exp.(Raw Val)	450	412	450	430	420
Total Exports	600	542	600	580	600
Human Dom. Consumption	1,950	1,950	1,995	1,970	1,990
Other Disappearance	5	5	5	5	5
Total Use	1,955	1,955	2,000	1,975	1,995
Ending Stocks	300	120	390	195	230
Total Distribution	2,855	2,617	2,990	2,750	2,825