

Required Report: Required - Public Distribution

Date: April 18, 2022

Report Number: EC2022-0007

Report Name: Sugar Annual

Country: Ecuador

Post: Quito

Report Category: Sugar

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Report Highlights:

Sugar production in marketing year MY 2022/23 is forecast to decrease to 530,000 MT, down five percent from the MY 2020/21 estimate, due to fertilizer and pesticide price increases during 2021, and despite a slight increase in planted area of 1,000 hectares. Domestic consumption is forecast to remain stable with considerable increases expected in the coming years following the world trend. Ethanol production and a possible increase in the ethanol blend rate could help to absorb some excess sugar supply.

Executive Summary:

Ecuador's sugar production in MY 2022/23 is forecast to decrease to 530,000 MT, down 30,000 MT, or nearly five percent, from the MY 2020/21 estimate. FAS Quito attributes the decrease in sugar production to fertilizer and pesticide price increases during 2021, despite a slight increase in planted area of 1,000 hectares, which has not been harvested yet. Yields are expected to range from 75 MT to 83 MT per hectare. Production in marketing year (MY) 2021/22 is estimated at 560,000 metric tons (MT), up 20,000 MT, or five percent, from MY 2020/21.

Total domestic consumption in MY 2022/23 is forecast to increase to 562,000 MT, up 31,000 MT, or nearly six percent, from the MY 2021/22 estimate. During 2021, FAS Quito noted an increase in the annual per capita consumption of sugar by two kilograms (Kg), principally caused by the economic recovery from the COVID-19 pandemic. Total domestic consumption of sugar in MY 2021/22 is estimated at 530,000 MT, down 41,000 MT, or seven percent, from MY 2020/21.

Sugar imports in MY 2022/23 are forecast to increase to 40,000 MT due to demand for special sugars for the confectionery and chocolate industries, as well as organic sugar directly imported by mills.

Sugar Exports in MY 2022/23 are forecast at 25,000 MT, same as in MY 2021/22, considering a continued increase of local consumption. In MY 2021/22, Ecuador fully filled its U.S. sugar tariff rate quota for fiscal years (FY) 2021 and 2022. While Ecuador is largely self-sufficient in raw sugar production, its imports typically range between 20,000 and 30,000 MT. In MY 2021/22 Ecuador imported an estimated 30,000 MT.

Sugar Cane for Centrifugal

Table 1. Sugar Cane for Centrifugal

Sugar Cane for Centrifugal	2020/2021		2021/2022		2022/2023		
	Jun-20		Jun-21		Jun-22		
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	Units
Ecuador							
Area Planted	92	92	82	82	0	83	1000 HA
Area Harvested	90	90	78	78	0	79	1000 HA
Production	6700	6700	6550	6550	0	6500	1000 MT
Total Supply	6700	6700	6550	6550	0	6500	1000 MT
Utilization for Sugar	5700	5700	5570	5570	0	5525	1000 MT
Utilization for Alcohol	1000	1000	980	980	0	975	1000 MT
Total Utilization	6700	6700	6550	6550	0	6500	

Production:

Planted area for sugar cane in MY 2022/23 is forecast at 83,000 hectares, an increase of 1,000 hectares from the previous marketing year. This increase of planted area is mainly observed among farmers located in the lower parts of the Highlands Region. The trend of small farmers in the coastal region to move from sugar cane to other crops with export possibilities continues. Over the past several years, general adverse weather conditions in the Coastal Region have also driven this change in crop plantings. In addition, some small farmers have simply chosen not to produce or harvest sugar cane.

For MY 2022/23, nearly all (94 percent) of the total planted area is expected to be harvested. Estimated yields are forecast at about 83 MT per hectare, a decrease of 1 percent from MY 2021/22. Between 2017 and 2019 yields were below 80 MT per hectare. Productivity per hectare has increased due to good weather conditions expected throughout the year. Additionally, areas around the three main mills that cover 85 percent of the planted area are using more productive local varieties, like CC8592, as well as using mechanized harvesting.

Photo 1. Mechanized sugar cane harvest at La Troncal Mill.



Mechanized sugar cane harvest. La Troncal Mill, Guayas. Source: La Troncal Mill.

FAS Quito estimates that up to 20,000 hectares may be dedicated to sugar cane for juice production, which is utilized for making “panela” (unrefined cane sugar derived from the boiling and evaporation of sugar cane juice to form a solid block of sucrose), molasses, and ethanol. Small farmers located in the sugar production areas of the Ecuadorian highlands commonly produce these products using rudimentary processes. An exact figure is difficult to calculate as the ethanol production sector is not fully established and the demand of less processed sweeteners is growing. FAS Quito will continue monitoring developments in ethanol production and use.

Nearly 63 percent of Ecuador’s sugar is produced in Guayas province, followed by 24 percent in Cañar’s coastal areas, six percent in Imbabura, five percent in Loja, and the remaining two percent in provinces like Pichincha, Tungurahua, and El Oro, which mainly focused on “panela” production. All these areas receive 600-1,200 millimeters of rainfall per year (the majority of which falls during the January-April period).

Figure 1: Ecuador’s Main Sugar Producing Regions

Local production map - 2020



Source: SIPA information program. Ecuador Ministry of Agriculture

Total sugar cane production in MY 2021/22 is estimated at 6.5 million metric tons (MMT), a decrease of two percent compared with MY 2020/2021. Utilization of sugar cane for sugar production in MY 2021/22 is estimated at 5.7 MMT. The difference, about 1 MMT, is likely going to alcohol production.

Ecuador’s sugar production in MY 2021/22 is estimated at 560,000 MT, up 20,000 MT or 3.5 percent from MY 2020/21. Sugar production in MY 2022/23 is forecast to decrease to 530,000 MT, down 30,000 MT, five percent below the MY 2021/22 estimate. The decrease in sugar cane production is attributed to a reduced use of fertilizers, mainly Urea (Nitrogen at 46%), due to its price nearly doubling during 2021. The sucrose content related to improved harvesting and agronomic/weather conditions remains similar to the previous year.

Photo 2: Producers Delivering to Valdez Mill



Small producers waiting at Valdez mill reception area. Guayas province. Source: El Telegrafo newspaper

Ecuador's domestic wholesale sugar prices experienced a continuous decline between 2011 to 2017. Although prices have remained stable in recent years, retail prices increased during calendar year (CY) 2021 due to economic recovery after the COVID-19 pandemic. Average mill price in CY 2021 was \$0.71 per Kg.

The average price was \$0.69-.72/Kg at the mill gate in CY 2020. The spread between wholesale and retail prices is attributable to the intermediary's markup, speculation, storage, distribution, and advertising costs, which could range from \$0.85 to \$1.05 per Kg.

The Ministry of Agriculture signed Agreement No. 022 in August 2021, which set the price of cut sugar cane for MY 2021/22 at \$31.70/MT. The new agreement consists of seven articles. It establishes that millers must pay 50 percent of the value within 15 days from beginning of harvest, and the difference will be paid in the next 30 to 90 days. The time varies according to the farmer's planted area.

During the harvest season, some 6,000 low-skilled laborers receive a payment of \$26.50 per day at the country's three largest sugar mills. The mechanization of the harvest has reduced the number of workers significantly, considering that in the past around 13,000 people worked as laborers during the harvest, or "zafra" period. Accordingly, with Ecuador's Biofuels Association "APALE", over 100 million liters of Ethanol is currently produced for "ECOPAIS" fuel.

Centrifugal Sugar

Table 2. Centrifugal Sugar

Centrifugal Sugar	2020/2021		2021/2022		2022/2023		
Market Begin Year	Jun-20		Jun-21		Jun-22		
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	Units
Beginning Stocks	351	351	330	326	0	361	(1000 MT)
Beet sugar Production	0	0	0	0	0	0	(1000 MT)
Cane sugar Production	540	540	560	560	0	530	(1000 MT)
Total Sugar Production	540	540	560	560	0	530	(1000 MT)
Raw Imports	1	1	2	0	0	0	(1000 MT)
Refined Imports (Raw Val)	30	25	30	30	0	40	(1000 MT)
Total Imports	34	26	32	30	0	40	(1000 MT)
Total Supply	925	917	922	916	0	931	(1000 MT)
Raw Exports	20	10	20	15	0	15	(1000 MT)
Refined Exports (Raw Val)	15	10	10	10	0	10	(1000 MT)
Total Exports	35	20	30	25	0	25	(1000 MT)
Human Dom Consumption	560	571	531	530	0	562	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Use	560	571	531	530	0	562	(1000 MT)
Ending Stocks	330	326	361	361	0	344	(1000 MT)
Total Distribution	925	917	922	916	0	931	(1000 MT)

Consumption:

Sugar consumption in MY 2022/23 is forecast to increase by six percent to 562,000 MT due to rising incomes (Basic Salary increased from \$400 to \$425). Green Pool Consultants has forecast that sugar consumption worldwide during 2022 will increase by 1.26 percent. FAS Quito estimates total domestic sugar consumption in MY 2021/22 at 530,000 MT, down 41,000 MT, or seven percent, from MY 2020/21.

Per capita sugar consumption in Ecuador since 1996 has been over 30 Kg per year. During 2021, the per capita consumption was 32.0 Kg, a nearly two Kg increase from 2020. This was primarily the result of economic recovery and an increase of the basic salary after the COVID-19 pandemic in 2020.

Domestic nutritional food labeling and fiscal policies (i.e., sugar taxes) are still affecting sugar consumption. In response to these policies, and to find alternative uses for sugar, mills have increasingly used sugar cane for alcohol production in recent years. Currently, about 15 percent of total sugar cane production goes to alcohol production.

During CY 2021, sugar production destined for direct sales represented 75 percent of utilization. Of this, 45 percent (or 34 percent of total human consumption) is sold in 50-kilogram sacks by wholesalers. Supermarket chains, traditional wet markets, and small retailers such as neighborhood, family-owned stores represent 55 percent of direct distribution to consumers (about 41 percent of total consumption). The remaining 25 percent of consumption corresponds to industrial uses. Sugar is used in the manufacturing of sweetened beverages, bread, cookies, frozen snacks, confectionery, and jarred goods. In recent years, industrial sugar use has gone from over 40 percent to less than 30 percent of total consumption as the industry has switched to artificial sweeteners due to domestic nutrition policies.

Trade:

Post estimates sugar exports in MY 2021/22 at 25,000 MT, a 20-percent increase from MY 2020/21. This follows a trend of large swings in Ecuador's sugar exports in recent years, which reached a peak in MY 2016/17 of 107,000 MT, then subsequently fell to 60,000 MT the following year. This most recent increase can be attributed to several factors, such as recovery of international demand and slightly better prices in importing countries. Ecuador fulfilled its U.S. tariff rate quota (TRQ) from May 2021 to early 2022. FAS Quito does not expect any change in Ecuador's ability to fulfill its TRQ in the next few years, as the U.S. TRQ represents a small percentage of Ecuador's total production (roughly three percent).

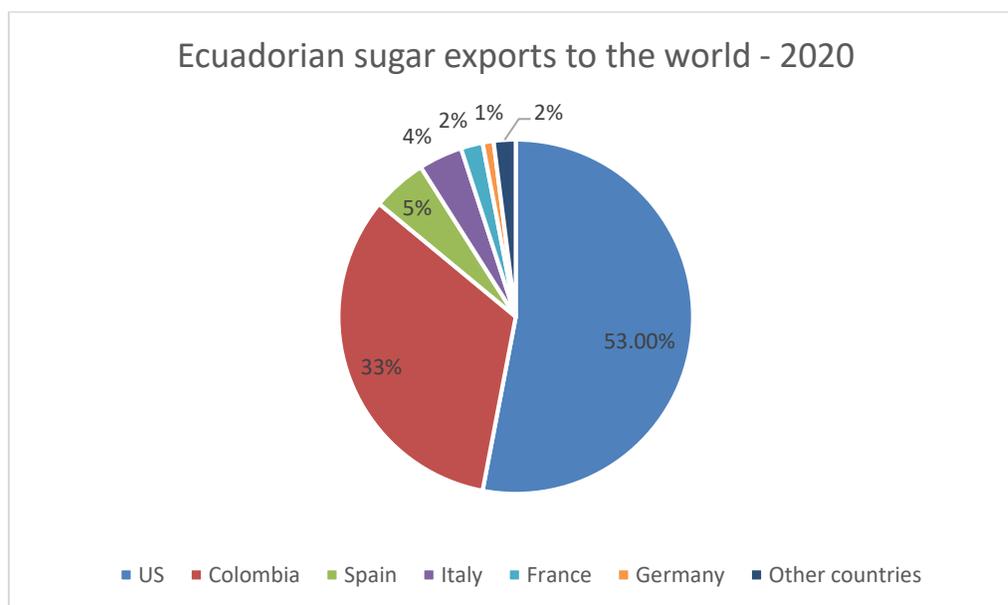
Exports in MY 2022/23 are forecast to remain similar to the previous year, reaching 25,000 MT, as weather conditions in the coastal region remain similar to last year. This forecast also considers that the Ecuadorian Government signed an MOU in 2021 with the US Grains Council to work on increasing use of ethanol in ECOPAIS gasoline from five percent to ten percent in the blended formula.

Ecuador is largely self-sufficient in raw sugar production. Imports range between 25,000 MT and 40,000 MT per year, according to Ecuador's National Federation of Sugar Producers (FENAZUCAR). MY 2021/22 imports are estimated at 30,000 MT. Sugar imports in MY 2022/23 are forecast to increase to

40,000 MT, up 10,000 MT, or 25 percent over MY 2021/22. This forecast is based on an increase in imports for special confectionery mainly for the chocolate industry and organic sugar directly imported by the mills.

Ecuador's surplus sugar production is partly diverted for export to the United States, which during CY 2021 represented 53 percent of the exports. Colombia was the second destination, representing 33 percent. Other destinations are mainly European countries which represent 13 percent of total exports. Nearly all the U.S. bound sugar is exported under the U.S. Quota Eligibility System.

Figure 2. Ecuadorian Sugar Exports in 2020



Source: National Financial Corporation, CFN

Local and international sugar prices determine whether exports to Colombia and other countries occur. The export numbers from the Ecuadorian Central Bank do not account for informal cross-border trade with neighboring countries such as Colombia and Peru, which are negligible.

Stocks:

The Government of Ecuador does not maintain a strategic sugar reserve. Private sector sugar mills have invested in sugar storage facilities. Warehouses are mainly located in Guayaquil and in the Guayas and Cañar provinces. Storage capacity is sufficient to absorb production and a six-month reserve. For MY 2021/2022 ending stocks forecast is 361,000 MT, caused by a reduction of six percent in local consumption. However, the forecast for ending stocks in MY 2022/23 will decrease by nearly six percent due to a consumption increase, in-line with local and international forecasts.

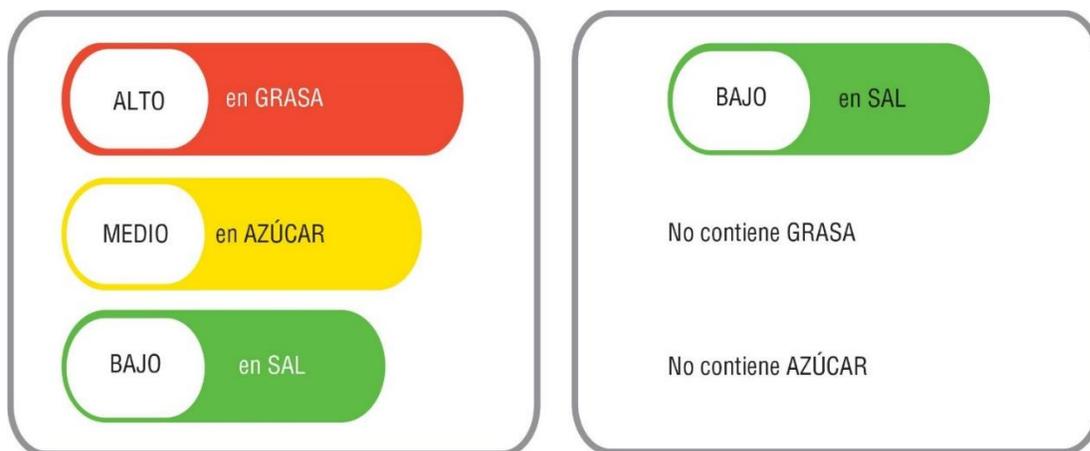
Policy

Domestic sugar prices remain artificially high due to Ecuador's protection of the sugar value-added chain from international trade. An example of government intervention in favor of Ecuador's sugar producers includes COMEX Resolution 030-2017 from December 2017, which effectively stops the preferential treatment (zero tariffs) granted to sugar imports from Andean Community members Colombia, Peru, and Bolivia. This Resolution established a quota for Colombian exports, with zero tariffs, up to 30,000 MT. All sugar imports from other Andean Community countries were made subject to the Andean Price Band System. In November 2018, Resolution 030 was replaced with COMEX Resolution 020-2018. Resolution 020 further restricted access to the Ecuadorian market by reducing the quota for Colombian exports to 17,229 MT. Prior to the enforcement of these COMEX Resolutions, Ecuador's sugar imports from the Andean Community benefited from duty-free treatment. Andean Community sugar imports nonetheless required prior government authorization.

All-origin raw and refined sugar imports are assessed a 15 percent base tariff. In addition, countries are levied the Andean Price Band System's variable tariff. The variable levy for raw and refined sugar during the first half of April 2021 was set at 15 percent. Sugar imports have a World Trade Organization approved bound tariff rate of 45 percent, which includes price band-related duties.

Three policy changes have affected domestic consumption of sugar in Ecuador over the last few years. First, a 2014 law mandated labeling of all processed food products and beverages sold in Ecuador with a traffic light type label highlighting sugar, salt, and fat content (Ministry of Public Health's Food Labeling Resolution Number 4522 of November 2013). Second, Ecuador's Ministry of Industries issued Resolution 17 156 in April 2017, which mandates the addition of the following warning for sugar for food packed for retail sale: "For your health reduce the consumption of this product". Third, the Organic Law to Balance Public Finances (April 29, 2016, published in the Official Record 744) established the following tax scheme for sugared drinks: soft drinks with a sugar content less than or equal to 25 grams per liter of beverage and energy drinks are levied a 10 percent ad-valorem tax. Non-alcoholic drinks and soft drinks with a sugar content greater than 25 grams per liter of beverage, except for energy drinks, are levied a charge of \$0.18 per each 100 grams of sugar.

Figure 3: Image of Ecuador's Dietary Warning Labels



Source: Ecuador Ministry of Public Health

Industry sources report that these three policies have affected consumer patterns and increased production costs. Subsequently, food and beverage manufacturers have increasingly replaced sugar with low-calorie sugar substitutes in food and beverage manufacturing.

Sugar is a key component of the basic basket of goods utilized by the government to track inflation. Neither farmers nor mills receive domestic or export subsidies. Sugar cane farmers, like other farmers, are eligible for agricultural loans at preferential rates from BanEcuador and the National Finance Corporation.

Ecuador enjoys associate status with the Southern Common Market (MERCOSUR), but it has yet to commence sugar tariff negotiations. Under the Ecuador-European Union Free Trade Agreement that took effect on January 1, 2017, Ecuador benefits from a 25,000 MT tariff rate quota for sugar and products. The TRQ is composed of 15,000 MT of raw sugar and a 10,000 MT component mix of products such as high-content sugar and cocoa powder. Ecuadorian sugar producers did not claim this quota benefit in 2021 due to domestic supply and freight cost considerations

The Ecuadorian government is considering requiring a higher rate of ethanol in the gasoline blend, from five percent to ten percent. Right now, gasoline blended with ethanol “ECOPAIS” is sold in half of the country at the same price as “EXTRA” gasoline (88 octane). If the blend is commercialized nationwide and an increase of the blend is implemented, small sugar cane producers and millers may start producing more sugar cane-based alcohol and the possibility to import ethanol to cover the deficit would open.

Attachments:

No Attachments