

Required Report: Required - Public Distribution

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Report Name: Sugar Annual

Country: Ecuador

Post: Quito

Report Category: Sugar

Prepared By: Esteban Espinosa

Approved By: Zeke Bryant

Report Highlights:

Sugar production in marketing year (MY) 2020 is estimated to decrease by two percent compared to MY 2019 levels. Domestic consumption is forecast to remain stable with small reductions in the current and previous years due to COVID-19, which has caused a reduction in overall consumption due to economic and health issues. As sugar supply and demand finds an equilibrium, 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 marketing year (MY) 2020/21 is estimated at 540,000 metric tons (MT), up 11,000 MT, or two percent, from MY 2019/20. Production in MY 2021/22 is forecast to further increase to 560,000 MT, up 20,000 MT, or nearly 4 percent, from the MY 2020/21 estimate. FAS Quito attributes the continued increase in sugar production to an increase in yields from 74 to 84 MT per hectare, despite a reduction in planted area of 10,000 hectares.

During 2020, FAS Quito noted a reduction in the annual per capita consumption of sugar by one kilogram (Kg), principally caused by COVID-19. Total domestic consumption of sugar in MY 2020/21 is estimated at 571,000 MT, up 12,000 MT, or two percent, from MY 2019/20. Total domestic consumption in MY 2021/22 is forecast to reduce to 530,000 MT, down 41,000 MT, or nearly eight percent, from the MY 2020/21 estimate.

Sugar exports in MY 2020/21 are estimated at 20,000 MT, a reduction from the MY 2019/20 level of 40,000 MT. Exports in MY 2021/22 are forecast to increase to 25,000 MT. In MY 2020/21, Ecuador filled a large portion of its U.S. sugar tariff rate quota for fiscal years (FY) 2020 and 2021. While Ecuador is largely self-sufficient in raw sugar production, its imports range between 20,000 and 30,000 MT. In MY 2020/21 Ecuador imported an estimated 26,000 MT. Sugar imports in MY 2021/22 are forecast to increase slightly to 30,000 MT due to demand for special sugars for the confectionery and chocolate industries.

Sugar Cane for Centrifugal

Sugar Cane for Centrifugal Market Year Begins	2019/2020		2020/2021		2021/2022	
	May 2019		May 2020		May 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Area Planted (1000 HA)	90	90	92	92	0	82
Area Harvested (1000 HA)	89	89	90	90	0	78
Production (1000 MT)	6620	6620	6700	6700	0	6550
Total Supply (1000 MT)	6620	6620	6700	6700	0	6550
Utilization for Sugar (1000 MT)	5620	5620	5700	5700	0	5570
Utilization for Alcohol (1000 MT)	1000	1000	1000	1000	0	980
Total Utilization (1000 MT)	6620	6620	6700	6700	0	6550
(1000 HA), (1000 MT)						

Sugar Cane for Centrifugal

Sugar, Centrifugal Market Year Begins	2019/2020		2020/2021		2021/2022	
	May 2019		May 2020		May 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Beginning Stocks (1000 MT)	389	389	351	351	0	326
Beet Sugar Production (1000 MT)	0	0	0	0	0	0
Cane Sugar Production (1000 MT)	529	529	540	540	0	560
Total Sugar Production (1000 MT)	529	529	540	540	0	560
Raw Imports (1000 MT)	9	9	1	1	0	0
Refined Imp. (Raw Val) (1000 MT)	23	23	25	25	0	30
Total Imports (1000 MT)	32	32	26	26	0	30
Total Supply (1000 MT)	950	950	917	917	0	916
Raw Exports (1000 MT)	13	13	10	10	0	15
Refined Exp. (Raw Val) (1000 MT)	27	27	10	10	0	10
Total Exports (1000 MT)	40	40	20	20	0	25
Human Dom. Consumption (1000 MT)	559	559	571	571	0	530
Other Disappearance (1000 MT)	0	0	0	0	0	0
Total Use (1000 MT)	559	559	571	571	0	530
Ending Stocks (1000 MT)	351	351	326	326	0	361
Total Distribution (1000 MT)	950	950	917	917	0	916
(1000 MT)						

Production:

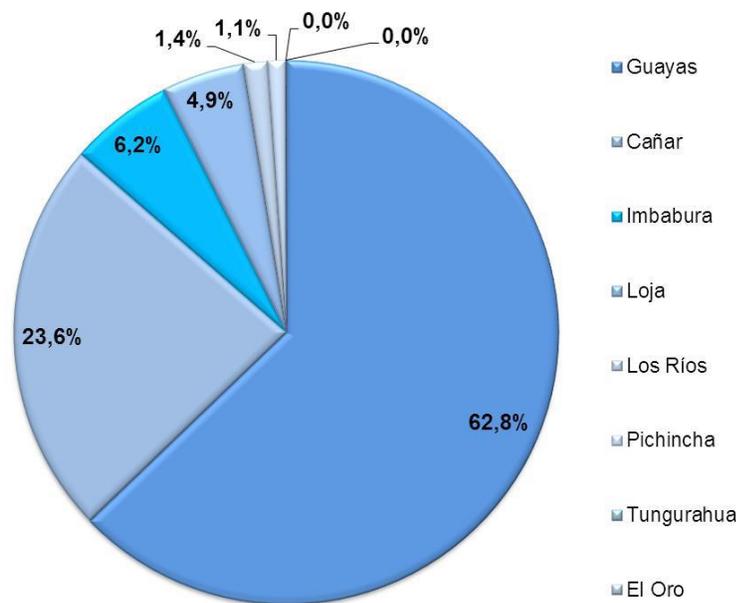
Planted area for sugar cane in MY 2021/22 is forecast at 82,000 hectares, a reduction of 10,000 hectares from the previous marketing year. This reduction of planted area is mainly observed among small farmers, who have moved from sugar cane to other crops like cacao or pitahaya (dragon fruit), which are more profitable. Over the past several years, adverse weather conditions 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 2021/22, nearly all (95 percent) of the total planted area is expected to be harvested.

Estimated yields are forecast at about 84 MT per hectare, an increase of 13 percent over MY 2020/21 and the several previous marketing years where yields averaged 75 MT per hectare. This increase in yields is due to better weather conditions expected throughout the year and more production areas under improved mechanization techniques, mainly harvesting.

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 rudimental processes. An exact figure is difficult to calculate as the ethanol production sector has just started to establish itself 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, six percent in Imbabura, five percent in Loja, and the remaining two percent in provinces like Pichincha, Tungurahua, and El Oro. All of these areas receive 600-1200 millimeters of rainfall per annum (the majority of which falls during the January-April period).

PROVINCES PARTICIPATION IN SUGAR PRODUCTION



Total sugar cane production in MY 2020/21 is estimated at 6.7 million metric tons (MMT), an increase of one percent compared with MY 2019/2020. Utilization of sugar cane for sugar production in MY 2020/21 is estimated at 5.7 MMT. The difference, about 1 MMT, is likely going to alcohol production.

Ecuador's sugar production MY 2020/21 is estimated at 540,000 MT, up 11,000 MT or two percent from MY 2019/20. Sugar production in MY 2021/22 is forecast to increase to 560,000 MT, up 20,000 MT or nearly 4 percent from the MY 2020/21 estimate. The increase in sugar production is attributed to an increase of yields from 74 MT per hectare to 84 MT per hectare as well as due to increased sucrose content related to improved harvesting and agronomic conditions.



Mechanized sugar cane harvesting in Guayas Province, Ecuador: Source El Telégrafo Ecuador

Ecuador's domestic wholesale sugar prices have experienced a decline in recent years, while retail prices on the other hand increased during calendar year (CY) 2020 due to the COVID-19 pandemic. Average mill prices in CY 2020 ranged from \$0.63 to \$0.74 per Kg.

The average price was \$0.65-.67/Kg at the mill gate in CY 2019. The spread between wholesale and retail prices is attributable to the intermediary's markup, speculation, storage, distribution, and advertising costs, which could range from \$ 0.90 to \$ 1.05 per Kg.

FAS Quito estimates that farmers were paid \$31.70/MT for cut sugar cane in MY 2020/21. During the harvest season, some 6,000 low-skilled laborers received a payment of \$25.00 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 "zafra" period.

Consumption:

FAS Quito estimates total domestic sugar consumption in MY 2020/21 at 571,000 MT, up 12,000 MT, or two percent, from MY 2019/20. Sugar consumption in MY 2021/22 is forecasted to fall by eight percent to 530,000 MT as decreasing incomes and an increasing consumer focus on lowering sugar consumption weigh on the market. In addition, domestic nutritional food labeling and fiscal policies (a sugar tax) 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.

Per capita sugar consumption in Ecuador since 2017 has been over 30 Kg per year. During 2020, the per capita consumption was 30.6 Kg, a one Kg reduction from 2019. This was primarily the result of the COVID-19 pandemic, which caused a reduction in national income and a consumer-driven narrative on the need to remain healthy and lose weight in hopes to reduce the severity of COVID-19 symptoms. Because of this movement, consumers shifted towards the use of other sweeteners like stevia and panela, which is increasingly viewed as healthier than refined sugar in Ecuador.

During CY 2020, sugar cane production destined for human consumption 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.

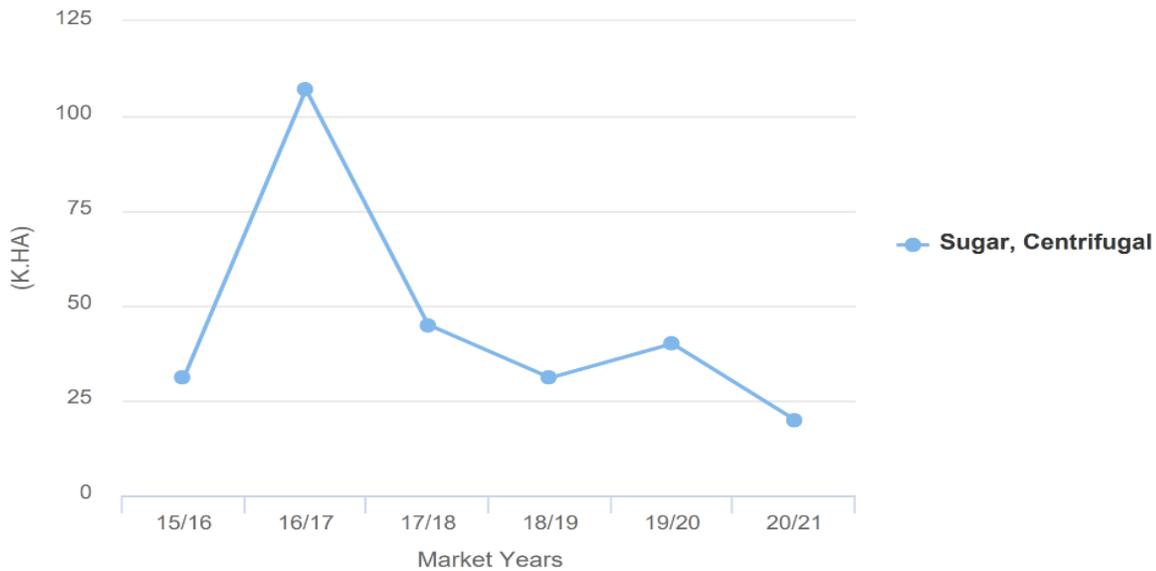
Trade:

Post estimates sugar exports in MY 2020/21 at 20,000 MT, a 50 percent reduction from MY 2019/20. 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 45,000 MT the following year. This most recent reduction can be attributed to several factors, such as increased local consumption and slightly higher local prices. Ecuador filled a large portion of its U.S. tariff rate quota (TRQ) from May 2020 to early 2021. 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 2021/22 are forecast to rise slightly, reaching 25,000 MT, on better productivity due to an improved rainy season in the coastal region. This forecast also considers that the Ecuadorian Government has yet to increase the use of ethanol in ECOPAIS gasoline from five percent to ten percent in the blended formula.

Sugar - Total Exports for Ecuador

Forecast for last 5 Years. Reported On:1/2021



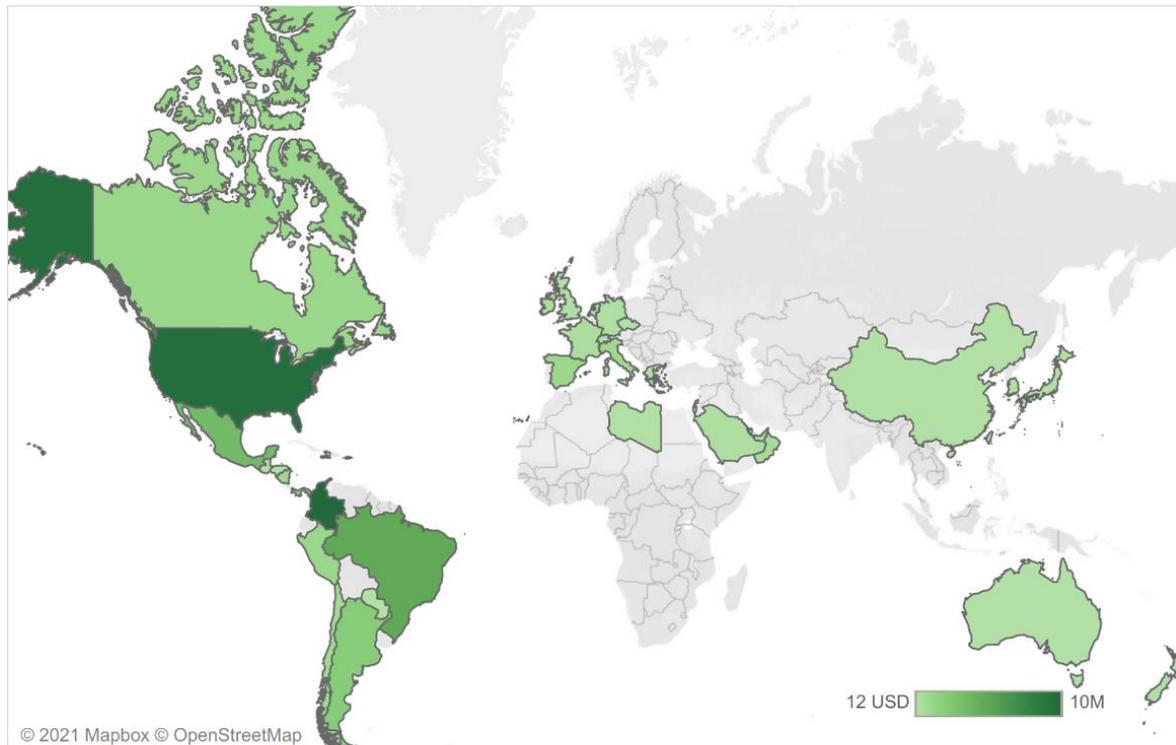
Source: FAS USDA

Ecuador is largely self-sufficient in raw sugar production. Imports range between 20,000 MT and 30,000 MT per year, according to Ecuador's National Federation of Sugar Producers (FENAZUCAR). MY 2020/21 imports are estimated at 26,000 MT. Sugar imports in MY 2021/22 are forecast to increase to 30,000 MT, up 4,000 MT, or 15 percent, from MY 2020/21. This forecast is based on an increase in imports for special confectionery and chocolate industries.

Ecuador's surplus sugar production is partly diverted for export to the United States, which during CY 2020 represented 49 percent of the exports. Colombia was the second destination representing 38 percent. Other destinations are mainly Latin American countries which represent 13 percent of total exports. Nearly all of the U.S. bound sugar is exported under the U.S. Quota Eligibility System.

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.

Ecuador main sugar destinations in US\$



Fuente: Banco Central del Ecuador (BCE)

Stocks:

The Government of Ecuador does not maintain a strategic sugar reserve. Private sector sugar mills have invested in sugar storage facilities. Warehouses are located in Guayaquil and in the Guayas and Cañar provinces. Storage capacity is sufficient to absorb production and a six-month reserve.

Policy

Domestic sugar prices remain artificially high due to the insulation 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 is 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, with the exception of energy drinks, are levied a charge of \$0.18 per each 100 grams of sugar.



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 2018 due to domestic supply and freight cost considerations.

The Ecuadorian government is evaluating the inclusion of a higher rate of ethanol in the gasoline blend, from five percent to ten percent. Right now, gasoline blended with ethanol 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 promoted, 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