

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ecuador

Sugar Annual

Ecuador Sugar Consumption Continues to Decline Amidst Nutritional and Fiscal Policy Changes

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Report Highlights:

Sugar production in marketing year (MY) 2017/18 returned to regular levels after a record setting level in MY 2016/17 the result of carry-over of cane not harvested the previous year. Domestic consumption is forecast to continue to decline at a small steady pace in coming years, due to nutritional labeling and fiscal policies. While sugar demand and supply find a new equilibrium, ethanol production might help absorb excess sugar supply.

Executive Summary:

Ecuador's sugar production in marketing year (MY) 2017/18 is estimated at 588,000 metric tons (MT), down 65,000 MT or almost 10 percent lower than in MY 2016/17. Production in MY 2018/19 is forecast to further decrease to 570,000 MT, down 18,000 MT or 3 percent compared to the MY 2017/18 estimate. We attribute the decrease in sugar production returning to normal levels after [sugar production in MY 2016/17 was exceptionally high](#). This record setting level of production was the result of carry-over of cane that was not harvested the previous year.

Total domestic consumption of sugar in MY 2017/18 is estimated at 580,000 MT, down 14,000 MT or decreasing two percent from MY 2016/17 levels, the result of domestic nutritional food labeling and fiscal policies affecting sugar consumption. Total domestic consumption in MY 2018/19 is forecast to further decrease to 550,000 MT, down 30,000 MT or five percent from the MY 2017/18 estimate.

Sugar exports in MY 2017/18 are estimated at 85,000 MT, a decrease of 21,000 MT from the MY 2016/17 level of 106,000 MT. Exports in MY 2018/19 are forecast to decline to 65,000 MT. While Ecuador is largely self-sufficient in raw sugar production, the country exports sugar during the second half of the calendar year (sugarcane milling season) and imports sugar during the first half of the calendar year when there is no domestic production. Imports average roughly 50,000 MT. In MY 2017/18 Ecuador imported an estimated 70,000 MT. Sugar imports in MY 2018/19 are forecast to decrease to 25,000 MT due to a small but steady decline in domestic consumption over the last few years, making imports less necessary.

Sugar Cane for Centrifugal Market Begin Year Ecuador	2016/2017		2017/2018		2018/2019	
	Jun 2016		Jun 2017		Jun 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	84	84	88	86	0	88
Area Harvested	79	79	70	79	0	82
Production	6750	6750	5600	7001	0	7500
Total Supply	6750	6750	5600	7001	0	7500
Utilization for Sugar	6500	6500	5200	6251	0	6500
Utilization for Alcohol	250	250	400	750	0	1000
Total Utilization	6750	6750	5600	7001	0	7500

(1000 HA) ,(1000 MT)

Commodities – Sugar, Centrifugal

Sugar, Centrifugal Market Begin Year Ecuador	2016/2017		2017/2018		2018/2019	
	May 2016		May 2017		May 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	395	395	395	395	0	388
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	653	653	540	588	0	570
Total Sugar Production	653	653	540	588	0	570
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	47	47	75	70	0	25
Total Imports	47	47	75	70	0	25
Total Supply	1095	1095	1010	1053	0	983
Raw Exports	10	10	15	20	0	25
Refined Exp.(Raw Val)	96	96	40	65	0	40
Total Exports	106	106	55	85	0	65
Human Dom. Consumption	594	594	565	580	0	550
Other Disappearance	0	0	0	0	0	0
Total Use	594	594	565	580	0	550
Ending Stocks	395	395	390	388	0	368
Total Distribution	1095	1095	1010	1053	0	983

(1000 MT)

Month/Year	Wholesale Price \$ per kg			Retail Price \$ per kg		
	2015	2016	2017	2015	2016	2017
January	0.75	0.75	0.70	1.08	1.02	0.98
February	0.75	0.72	0.71	1.08	1.01	0.98
March	0.72	0.72	0.71	1.02	1.01	0.98
April	0.72	0.72	0.69	1.02	1.01	0.98
May	0.72	0.73	0.71	1.02	1.01	0.98
June	0.73	0.73	0.71	1.02	1.00	0.98
July	0.73	0.73	0.70	1.02	1.00	0.99
August	0.73	0.73	0.70	1.02	1.00	0.98
September	0.73	0.73	0.69	1.08	0.99	0.98
October	0.73	0.73	0.69	1.04	0.99	0.98
November	0.73	0.73	0.68	1.03	0.99	0.98
December	0.72	0.73	0.68	1.02	0.99	0.97
Average	0.73	0.73	0.70	1.04	1.00	0.98

Source: Ministry of Agriculture, Trade Studies Directorate, FAS Quito office research.

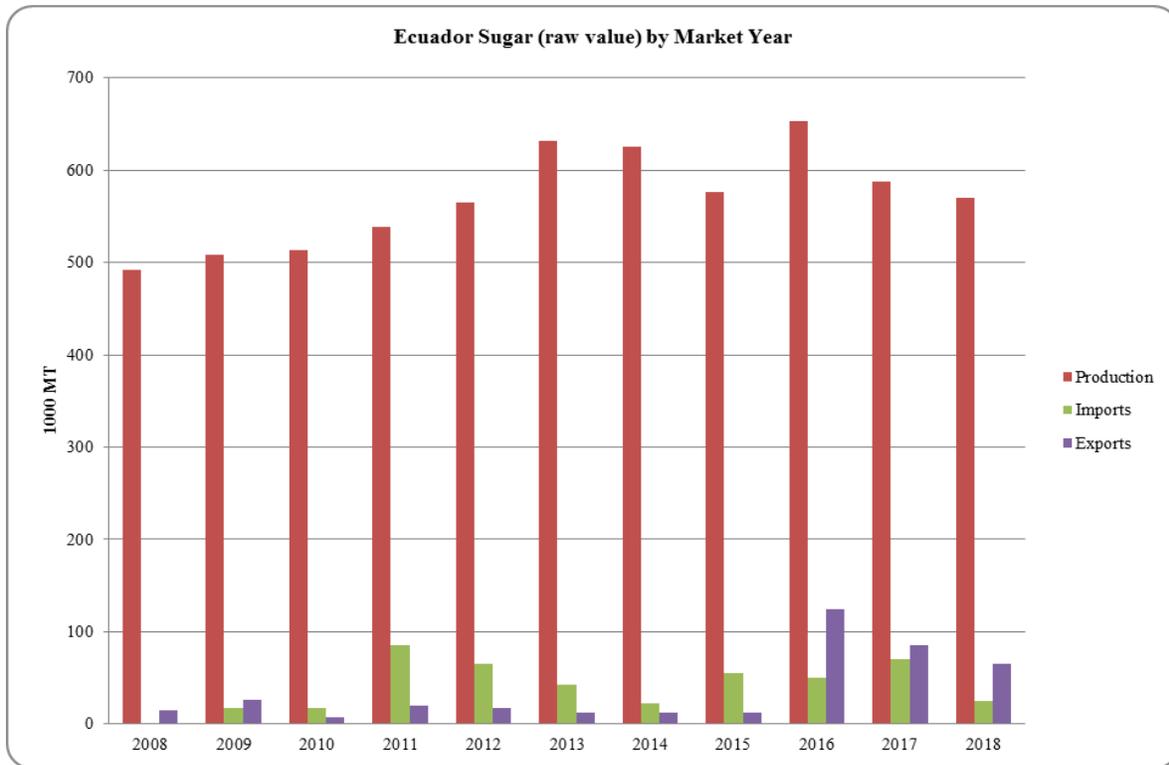
Production:

Planted area for sugar cane in marketing year (MY) 2018/19 is forecasted at 88,000 hectares, up 2,000 or about two percent higher than in MY 2017/18. Roughly 93 percent of total area, or some 82,000 hectares, is expected to be harvested. Estimated yields are about 81 MT per hectare. Some 7,000 hectares are dedicated to sugarcane juice production, which is utilized for making *panela* (solid blocks), molasses, and ethanol. Sixty-five percent of Ecuador's sugar production is the Guayas province, 28 percent in Cañar, 5 percent in Carchi and Imbabura, and the remaining 2 percent in Loja; all areas with 600-1200 millimeters of rainfall per annum (the majority of which falls during the January-April period).

Sugar cane production in MY 2017/18 was slightly higher than in MY 2016/17 due to favorable weather conditions. Thus, total sugarcane production in MY 2017/18 is estimated at 7 million metric tons (MMT), up 0.25 MMT or about four percent higher than in MY 2016/17. Utilization of sugarcane for sugar production, however, fell from 6.5 MMT in MY 2016/17 to 6.25 MMT in MY 2017/18. The difference, about 750,000 MT, went to ethanol production.

Ecuador's sugar production MY 2017/18 is estimated at 588,000 MT, down 65,000 MT or almost 10 percent lower than in MY 2016/17. [Sugar production in MY 2016/17 was exceptionally high](#). This record setting level of production was the result of carry-over of cane that was not harvested the previous year.

Sugar production in MY 2018/19 is forecast to further decrease to 570,000 MT, down 18,000 MT, diminishing 3 percent compared to the MY 2017/18 estimate. We attribute the decrease in sugar production to an increase in sugarcane use in ethanol production, as Ecuador's ethanol industry increases production. For more information, see FAS Quito's report, "[Ecuador's ethanol industry surges](#)".



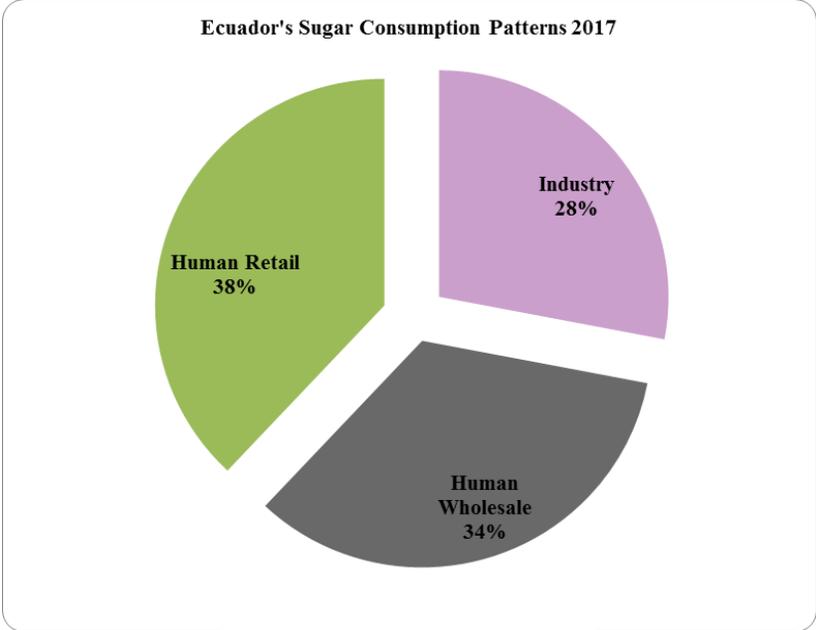
Ecuador's domestic sugar prices have remained stable since 2011, with a slight downward tendency, despite world prices having dropped significantly. Average mill prices in calendar year (CY) 2017 ranged from ¢71.40 per kilogram in February to ¢68.34 per kilogram in December. The average price per kilogram was ¢70.13 per kilogram at the mill gate in CY 2017. The wholesale price for a one-kilogram bag of refined sugar averaged about \$0.70 in CY 2017, while the average retail price averaged roughly \$0.98 in CY 2017. The spread between wholesale and retail prices is attributable to the intermediary markup and merchandizing costs (which includes advertising costs).

FAS Quito understands that farmers were paid \$32.20/MT for cut sugarcane in MY 2017/18. During the harvest season some 14,000 low-skilled laborers are employed by the country's three largest sugar mills.

Consumption:

FAS Quito estimates total domestic sugar consumption in MY 2017/18 at 580,000 MT, down 14,000 MT or decreasing two percent from MY 2016/17 levels. This decrease is the result of domestic nutritional food labeling and fiscal policies affecting sugar consumption. In response to these policies, and to find alternative usages of sugar, mills have increased the use of sugarcane for alcohol production in recent years in an effort to counter the decrease in demand of sugar for human consumption. Total domestic consumption in MY 2018/19 is forecast to reach 550,000 MT, down some 30,000 MT or five percent from the MY 2017/18 estimate. Ecuador's population was estimated at 16,290,913 people in July 2017 (U.S. Census Bureau). Per capita consumption of sugar is estimated at about 35.60 kilograms per year.

An estimated 72 percent of domestic sugar production is destined for human consumption in the form of white, brown, and specialty sugars. Of this percentage, 47 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-own stores represent 53 percent of direct distribution to consumers (about 38 percent of total consumption). The remaining 28 percent of consumption corresponds to industrial uses, mainly in the manufacturing of sugared beverages, bread, cookies, frozen snacks, confectionery and jarred goods. In recent years, sugar industrial use has gone from over 40 percent to less than 30 percent of total consumption as industry, mainly sugar manufacturers, have switched to the use of artificial sweeteners due to domestic nutrition policies.



Source: FAS Quito office research.

Trade:

FAS Quito updated the trade estimates in the PSD table to reflect current information from industry sources. We estimate sugar exports in MY 2017/18 at 85,000 MT, 21,000 MT less than the MY 2016/17 level. Exports in MY 2018/19 are forecast to decline to 65,000 MT due to lower surpluses due to lower domestic production.

Ecuador is largely self-sufficient in raw sugar production. The country imports sugar towards the last quarter of the calendar year, extending through the first half of April in the following year. Imports average roughly 50,000 MT per year. MY 2017/18 imports are an estimated at 70,000 MT due to lower prices in neighboring Colombia. Sugar imports in MY 2018/19 are forecast to decrease to 25,000 MT, down by 45,000 MT or 64 percent compared to MY 2017/18. This fall in forecast imports is due to small but steady decline in domestic consumption over the last few years, making imports less necessary.

Ecuador's surplus sugar production is partly diverted for export to the United States, and to a lesser extent to fellow Andean Community (CAN) members Colombia and Peru. About ninety-nine percent

of U.S. bound sugar is exported under the U.S. Quota Eligibility System. Local and international sugar prices determine whether exports to Colombia and Peru occur. Ecuador exports heavily during its harvest season to reduce stocks. The Export / Import Trade Matrixes for CY 2016 and CY 2017 are included next. The source of the data is the Global Trade Atlas and the numbers do not account for cross-border trade with neighboring countries Colombia and Ecuador. FAS Quito understands that depending on exchange rates trade volumes can become significant.

Export/ Import Trade Matrix (Metric Tons)		
Commodity: Sugar		
Time Period	CY 2016	CY 2017
Exports To:		
Colombia	91,714	50,537
United States	22,116	16,010
Others	1,286	1,992
TOTAL EXPORTS	115,116	68,539
Imports From:		
Colombia	46,176	70,821
Guatemala	2,439	10,491
Argentina	1,873	No records
Peru	133	122
Others	36	50
TOTAL IMPORTS	50,656	81,484
BALANCE (TE-TI)	64,460	-12,945

Note: Unrecorded cross-border trade is not included.
Source: Global Trade Atlas.

Stocks:

The Government of Ecuador does not maintain a strategic sugar reserve. Private sector sugar mills have invested in sugar storage capabilities. Warehouses are located in Guayaquil and in the Guayas and Cañar provinces. Storage capability is sufficient to absorb production plus a six-month reserve. Ecuador has already shipped the FY 2018 TRQ to the United States. FAS Quito does not expect an impact in Ecuador’s ability to fulfill its TRQ in the next few years as it represents only a very small amount compared to total production.

Policy:

Three policy changes affected domestic consumption of sugar in Ecuador the last few years. First, starting in 2014, a 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 regulation, November 29, 2013/ Executive Agreement 4,522; published in the Official Record as R.S. SP134). Second, Ecuador’s Ministry of Industries issued [Resolution 17 156](#) in April 2017 which mandates the addition of the following warning in sugar packed for retail sales: “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 at 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 ¢18 per each 100 grams of sugar.

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

Sugar is a key component of the basic basket of goods utilized by the government to track inflation. 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 030-217](#) from December 2017, which effectively stops the preferential treatment (zero tariffs) granted to sugar imports from Andean Community members Colombia, Peru, and Bolivia. Sugar exports from these countries are now subject to the Andean Price Band System. Prior to COMEX Resolution's enforcement, 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 to the Andean Price Band System variable levy. The variable levy for raw and refined sugar during the second half of February 2018 is set at 30 percent. Sugar imports have a World Trade Organization approved bound tariff rate of 45 percent, which includes price band-related duties.

While there is neither a government-set retail price for refined sugar products, nor a government-set price for cut sugarcane or refined sugar, industry sources indicate that the price that sugar cane millers pay to the farmer for sugar cane is tied to the price of the refined sugar's market price. Neither farmers nor mills receive domestic or export subsidies. Sugarcane farmers, like other farmers, are eligible for agricultural loans from BanEcuador and from the National Finance Corporation at preferential rates.

Ecuador enjoys associate status with the Southern Common Market (MERCOSUR), but it has yet to commence sugar tariff negotiations. Under Ecuador-European Union Free Trade Agreement that took effect on January 1, 2017, Ecuador benefits from a 25,000 MT quota. The quota 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 2017 due to domestic supply and freight cost considerations.