

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ecuador

Sugar Annual

Ecuador Sugar Production Set Record in 2016 but Consumption Decreased in Response to Policy Changes

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Report Highlights:

Sugar production in marketing year (MY) 2016/17 set a record high of 653,000 metric tons due to carry over of cane not harvested the previous year. Production in MY 2017/18 is forecast to return to normal level –heavy rains in early 2017 might affect area harvested and conversion rates. Domestic consumption is forecast to decrease by a combined 12% in MY 2016/17 and MY 2017/18 due to labeling and tax policies. Ecuador will trade small volumes of sugar to balance domestic supply and demand.

Executive Summary:

Ecuador's sugar production in marketing year (MY) 2016/17 is estimated at a record 653,000 metric tons (MT), up 77,000 MT or thirteen percent higher than in MY 2015/16. Production in MY 2017/18 is forecasted to decrease to 540,000 MT, down 113,000 MT or seventeen percent compared to the MY 2016/17 estimate. We attribute the decrease to sugar production returning to normal levels.

Total domestic consumption of sugar in MY 2016/17 is estimated at 577,000 MT, down 55,000 MT or decreasing nine percent from MY 2015/16's level as result of food labeling and tax-related policy changes affecting sugar consumption. Total domestic consumption in MY 2017/18 is forecast to decrease further and reach 560,000 MT, down 17,000 MT or three percent from the MY 2015/16 estimate.

Sugar exports in MY 2016/17 are estimated at 124,000 MT, a large increase from the MY 2015/16 level of 13,000 MT. Exports in MY 2017/18 are forecast to decline by 84,000 MT and reach just 40,000 MT. While Ecuador is largely self-sufficient in raw sugar production, the country does on occasion import 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. In MY 2016/17, Ecuador imported an estimated 50,000 MT. Sugar imports in MY 2017/18 are forecast to increase to 75,000 MT, up by 25,000 MT or 50 percent compared to MY 2016/17.

Ecuador, Wholesale and Retail Sugar Prices, 2014-16

Month/Year	Wholesale Price \$ per kg			Retail Price \$ per kg		
	2014	2015	2016	2014	2015	2016
January	0.79	0.75	0.75	1.05	1.08	1.02
February	0.80	0.75	0.72	1.05	1.08	1.01
March	0.80	0.72	0.72	1.05	1.02	1.01
April	0.79	0.72	0.72	1.06	1.02	1.01
May	0.78	0.72	0.73	1.05	1.02	1.01
June	0.78	0.73	0.73	1.05	1.02	1.00
July	0.78	0.73	0.73	1.05	1.02	1.00
August	0.78	0.73	0.73	1.05	1.02	1.00
September	0.78	0.73	0.73	1.03	1.08	0.99
October	0.77	0.73	0.73	1.05	1.04	0.99
November	0.76	0.73	0.73	1.04	1.03	0.99
December	0.76	0.72	0.73	1.04	1.02	0.99
Average	0.78	0.73	0.73	1.05	1.04	1.00

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

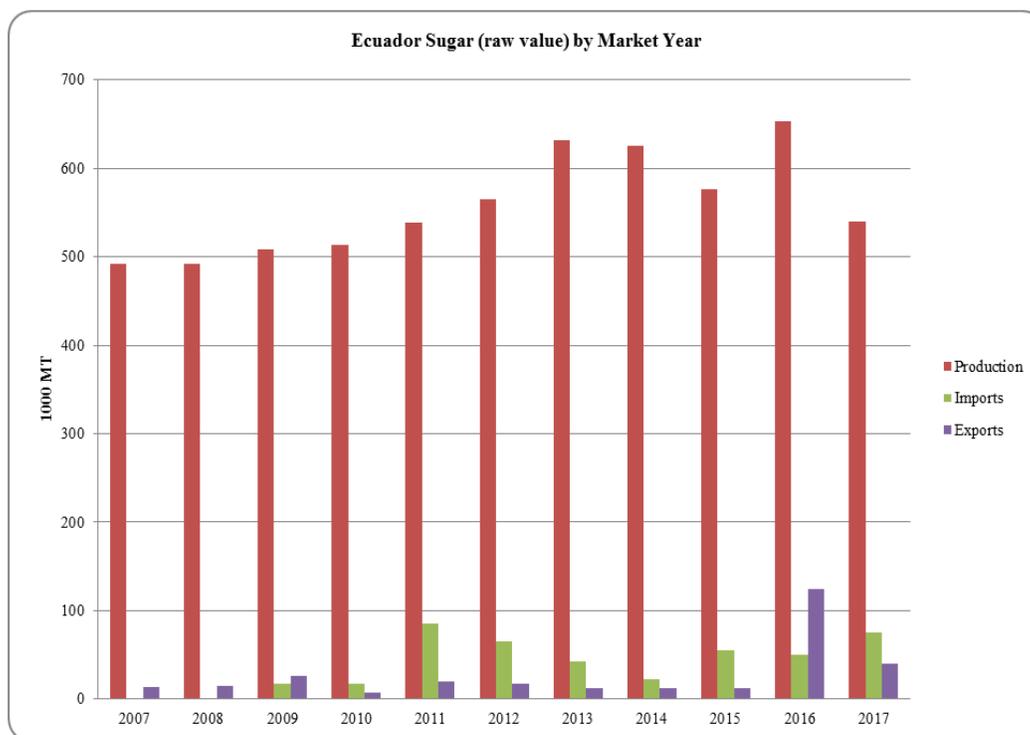
Production:

Ecuador's sugar cane planted area in marketing year (MY) 2017/18 is forecasted at 88,000 hectares (HA), up 4,000 or about five percent higher than in MY 2016/17. Roughly 80 percent of total area, or some 70,000 hectares, is expected to be harvested. Estimated yields are about 80 MT per hectare. Some 8,000 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 and twenty-five percent in Cañar, areas with 600-1200 millimeters of rainfall per annum (the majority of which falls during the January-April period).

Production in MY 2016/17 was higher than usual because approximately 13,000 MT were not harvested in MY 2015/16 due to weather conditions. While production in MY 2016/17 was exceptionally high, persistent rains at the beginning of 2017 will result in a production decline. Thus, sugar cane production in MY 2017/18 is estimated at 5,600,000 metric tons (MT), down 1,150 or about five percent lower than in MY 2016/17.

Ecuador's sugar production MY 2016/17 is estimated at 653,000 MT, up 77,000 MT or over thirteen percent higher than in MY 2015/16. While production in MY 2016/17 was exceptionally high and set a record, a heavy rainy season at the beginning of 2017 threatens to drive not only sugar cane production downward but also to impact the sugar content and milling rates.

Sugar production in MY 2017/18 is forecasted to decrease to 540,000 MT, down 113,000 MT, diminishing over seventeen percent compared to the MY 2016/17 estimate. We attribute the decrease to sugar production returning to more normal levels following a high-production year. Production surpluses and deficits usually fall within three-to-four percent of industry targeted amounts. Ecuador does not produce beet sugar.



Source: FAS Quito office research.

Ecuador’s domestic sugar prices since 2011 have remained stable, with only a slight downward tendency, despite world prices having dropped significantly. Average mill prices in calendar year (CY) 2016 ranged from ¢72.70 per kilogram in February to ¢69.90 per kilogram in May. The average price per kilogram was ¢70.83 per kilogram at the mill gate in CY 2016. FAS Quito understands that farmers were paid \$32.39/MT for cut sugarcane in MY 2016/17. During the harvest season some 14,000 low-skilled laborers are employed by the country’s three largest sugar mills.

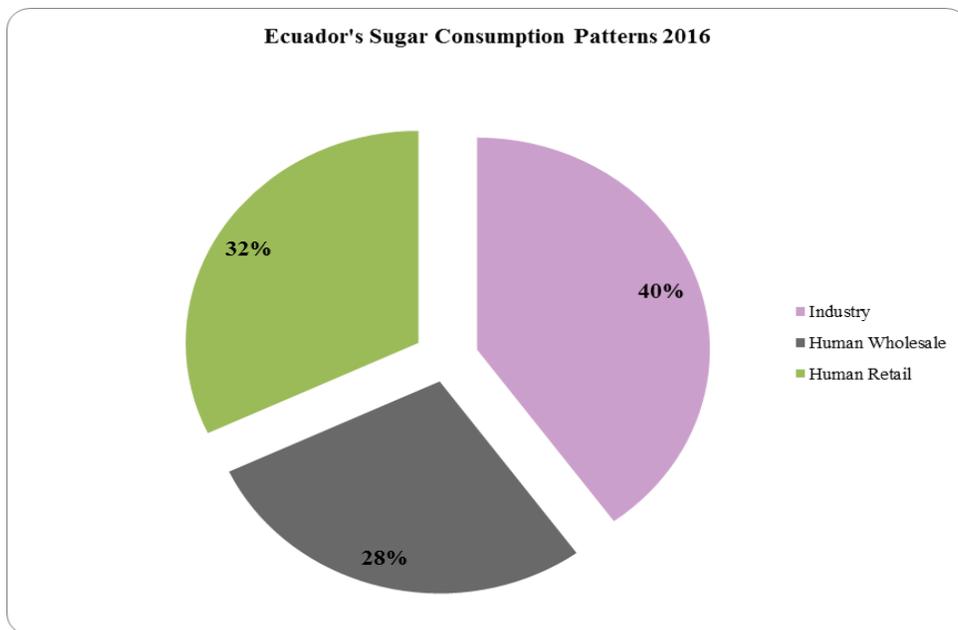
The wholesale price for a one-kilogram bag of refined sugar averaged about \$0.73 in CY 2016, while the average retail price averaged roughly \$1.00 in CY 2016. The spread between wholesale and retail prices is attributable to the intermediary markup and merchandizing costs (which includes advertising costs).

Consumption:

FAS Quito estimates total domestic consumption in MY 2016/17 at 577,000 MT, down 55,000 MT or decreasing 8.7 percent from MY 2015/16’s level as result of domestic nutritional and fiscal policies affecting sugar consumption. Total domestic consumption in MY 2017/18 is forecast to reach 560,000 MT, down some 17,000 MT or three percent from the MY 2016/17 estimate. Ecuador’s population is 16 million, growing at a rate of 1.3 percent per annum (U.S. Census Bureau – July 2016 estimate). Therefore, the per capita consumption of sugar is estimated at 35.88 kilograms per year.

An estimated 60 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 28 percent of total human consumption) is sold in 50 kilogram sacks by wholesalers. Supermarket chains represent about 15 percent of the market for direct human consumption, traditional wet markets 25 percent, and small

retailers such as neighborhood family-own stores 13 percent. The other 40 percent of consumption corresponds to industrial uses, mainly in the manufacturing of sugared beverages, bread, cookies, frozen snacks, confectionery and jarred goods.



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 2016/17 at 124,000 MT, a large increase from the MY 2015/16 level. Exports in MY 2017/18 are forecast to decline significantly to 40,000 MT as a consequence of lower surpluses due to lower domestic production.

Ecuador is largely self-sufficient in raw sugar production. The country does on occasion import 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. In MY 2016/17, Ecuador imported an estimated 50,000 MT mainly due to price advantages in neighboring Colombia. Sugar imports in MY 2017/18 are forecasted to increase to 75,000 MT, up by 25,000 MT or 50 percent compared to MY 2016/17. Imports would increase due to lower domestic production.

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. Producers reportedly are anticipating a supply shortage in MY 2017/18.

**Export/ Import Trade Matrix
(Metric Tons)**

Commodity: Sugar		
Time Period	CY 2015	CY 2016
Exports To:		
Colombia		91,714
United States	11,875	22,116
Others	1,172	1,286
TOTAL EXPORTS (TE)	13,047	115,116
Imports From:		
Colombia	36,231	46,176
Guatemala	16,939	2,439
Argentina		1,873
Peru		133
Others	221	36
TOTAL IMPORTS (TI)	53,391	50,656
BALANCE (TE-TI)	-40,344	64,460

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.

Policy:

Two 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, 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 two 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 sugar value-added chain being insulated from international trade.

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's sugar imports from the Andean Community (i.e., Bolivia, Colombia, and Peru) benefit from duty-free treatment. Andean Community sugar imports nonetheless require prior government authorization. Non-Andean Community-origin raw and refined sugar imports are assessed a 15 percent base tariff in addition to the Andean Price Band System (APBS) variable levy. The variable levy for raw and refined sugar during the first half of April, 2017 is set at zero percent. Sugar imports have a World Trade Organization (WTO) approved bound tariff rate of 45 percent, which includes price band-related duties.

Since 2004, Ecuador enjoys associate status with the Southern Common Market (MERCOSUR); however, the country has yet to commence sugar tariff negotiations. Ecuador and the European Union in 2014 finalized trade liberalization negotiations. A bilateral trade agreement was ratified in 2016 and became effective on January 1, 2017. Ecuador will benefit from a 25,000 MT E.U. export quota (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).