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El Salvador

Sugar Annual

2017 Sugar production improved due to favorable weather

Approved By:

Todd Drennan

Prepared By:

Miguel Herrera

Report Highlights:

El Salvador's sugarcane planted area in MY2017 (Nov 2016-Oct 2017) remains the same as in MY2016 reaching approximately 82,000 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In MY 2016, top sugar export destinations were Taiwan, the United Kingdom, Indonesia, the Netherlands, and the U.S. re-export market. Myanmar, Jamaica and Ivory Coast emerged as new export destinations for Salvadoran sugar. Favorable (but volatile) international prices continue providing financial relief to the sugar sector. The law for production of alternative fuels, including ethanol, continues to be "on hold" and there is no set date for its entry into force.

Executive Summary:

Higher yielding varieties, irrigation systems, diversification into energy production, new milling technology, and growing access to the U.S. market will all continue to benefit El Salvador's sugar industry over the next three to five years. However, uncertain international prices and abnormal weather conditions might affect the sector.

A national sugar law for commercialization, production, and distribution of sugar that requires changes in all aspects of sugar production has reshaped the industry. In addition, assisted by (mostly) attractive prices and additional access to the U.S. market, the sector is recovering after sustained economic losses due to natural disasters, high transportation costs and lack of government assistance. Ultimately the success of the industry will depend on compliance with the sugar law, continued improvement in yields, increased diversification into energy co-generation projects and final approval of an ethanol law that encourages investment. However, increased crime rates including extortions, uncontrolled sugarcane burning, and climate change are major concerns for the sector.

Sugarcane production for MY2017 harvest is estimated at 6.54 million metric tons (MMT). Based on new data provided by CONSAA, production for MY2016 has been revised upward to 6.05 MMT.

El Salvador only exports raw sugar. The Government of El Salvador (GOES) continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.40 per pound, plus a 13 percent value-added-tax. Higher input costs, sugarcane burning and increased crime activity could play a major role in future sugar production.

Commodities:

Sugar Cane for Centrifugal
Sugar, Centrifugal

Production:

Favorable weather conditions helped sugar production in MY2017 and is estimated at 730,000 metric tons (MT). Sugar production for MY2018 is expected to remain the same as MY2017. However, weather conditions will continue to affect future sugar production. Erratic weather patterns can once again pose threats to the upcoming sugarcane production as it did in MY2016. Weather forecasters predict an El Niño phenomenon could cause drought conditions by the middle of 2017. New data provided by CONSAA show exports reaching 371,200 MT for MY2016 and are estimated at 450,100 MT for MY2017.

Recent production numbers compiled by FAS/El Salvador show that the MY2017 sugarcane harvest is expected to reach 6.54 MMT. Sugar production is estimated to be 730,000 MT in MY2017. These production numbers are higher than in MY2016 because a favorable rainy season improved yields during harvest during the 2016 harvest. The sugar sector continues to decrease sugarcane burning during harvest, to create new pest-resistant sugarcane varieties, to invest in irrigation systems, and to increase investment in milling.

Planted area increased to 82,000 hectares (Ha) during MY2017 mainly due to higher international sugar prices and lack of production alternatives in the local agricultural sector. Planted area could increase in

the near future if the ethanol production law is implemented. There is ample idle land in the country that can be devoted to increased sugarcane production.

Grower prices continue to be set according to the sugar content of the cane. According to the sugar law, producers receive 54.5 percent of total sugar sales, with the rest going to the sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane provided. Continued investment in sugar mills has reduced downtime during the milling process, and increased sugar recovery rates to a more competitive position within the region.

Consumption:

Due to a sluggish Salvadoran economy, growth of domestic sugar consumption is minimal reaching 292,000 MT in MY2017. Post estimates that consumption will continue to have a slow growth in MY2018 increasing to 293,000 MT because of glim economic growth forecasts.

Trade:

Exports for MY2017 are expected to reach 450,100 MT; the export forecast for MY2018 is the same as the previous year.

In November 2013, El Salvador, together with the rest of Central America, signed a Trade Association Agreement with the European Union (EU) that provides access to the EU to up to 100,000 MT of duty-free sugar from the region and a 25,088 MT quota for El Salvador. Central America is negotiating a free trade agreement with Canada that could also benefit the sugar industry.

The GOES continues to impose a 40 percent ad-valorem import tariff on all sugar; the bound rate is 70 percent as the GOES considers sugar politically sensitive because it is an important driver of rural income and employment. Even though CAFTA-DR encouraged regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar.

Taiwan, Indonesia, the United Kingdom, and the Netherlands were major destinations for Salvadoran sugar. Also, in MY2016, 25,352 MT were exported to new markets such as Myanmar, Jamaica and the Ivory Coast. Export destinations for 2017 are expected to be similar to 2016.

Export Trade Matrix El Salvador Centrifugal Sugar			
Time Period	MY	Units:	MT
Exports for:	2016		2017
U.S.	60,778	U.S.	65,500
Others		Others	
Taiwan	67,887	Taiwan	82,500
Indonesia	47,054	Indonesia	56,900
United Kingdom	33,000	United Kingdom	40,000
Netherlands	26,479	Netherlands	32,000
Myanmar	9,073	Myanmar	11,000
Jamaica	8,153	Jamaica	9,700
Ivory Coast	8,126	Ivory Coast	9,600
U.S. re-export	85,451	U.S. re-export	103,400
Total for Others	285,223		345,100
Others not Listed	25,199		39,500
Grand Total	371,200		450,100

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in MY2017 are estimated at 38,000 MT. Contraband sugar from neighboring countries is under control and no longer causes a disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA. Ending stock levels are expected to decrease to 25,000 MT in MY2018.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A to reduce blindness. Both producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector; instead, limiting market access through import tariff protection continues to be the leading support mechanism.

Under the national sugar law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from the government, sugar producers, and sugar mills.

A law for the production of alternative fuels, including ethanol that was presented in 2009, is still on hold. Under the previous GOES administration there was agreement with the sugar industry on a 10 percent blend for ethanol in gasoline. But the current administration has not enacted this law; arguing that they need to make sure that it is beneficial and has no negative impact on the environment and on consumers.

The following are areas where the sugar industry is working to improve sugar profitability:

- Increased extraction rates;
- Investment in irrigation;
- Diversification into energy generation;
- Improved sugarcane varieties;
- Research and technology exchange with other sugar producing countries;
- Introduction of pest and disease-resistant sugarcane varieties;
- Coordination with security forces to diminish the impact of sugarcane burning and extortions from gangs.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Market Begin Year El Salvador	2015/2016		2016/2017		2017/2018	
	Nov 2015		Nov 2016		Nov 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	81	82	81	82	0	82
Area Harvested	80	81	80	81	0	81
Production	5800	6052	6400	6541	0	6541
Total Supply	5800	6052	6400	6541	0	6541
Utilization for Sugar	5800	6052	6400	6541	0	6541
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	5800	6052	6400	6541	0	6541
(1000 HA) ,(1000 MT)						
Sugar, Centrifugal Market Begin Year El Salvador	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	63	63	3	50	0	38
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	610	649	675	730	0	730
Total Sugar Production	610	649	675	730	0	730
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	673	712	678	780	0	768
Raw Exports	380	371	385	450	0	450
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	380	371	385	450	0	450
Human Dom. Consumption	290	291	291	292	0	293
Other Disappearance	0	0	0	0	0	0
Total Use	290	291	291	292	0	293
Ending Stocks	3	50	2	38	0	25
Total Distribution	673	712	678	780	0	768
(1000 MT)						

Source: CONSAA and USDA/FAS

