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Dominican Republic

Sugar Annual 2019

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Report Highlights:
Due to expected continuing effects of the current drought, Post forecasts sugar production of 530,000 metric tons (MT) during Marketing Year (MY) 2019/20 (October/September). During MY 2018/19, Post projects sugar production of 560,000 MT, a significant decline from the 615,974 MT produced during MY 2017/18, as the current drought is resulting in lower yields in the production zones. Additionally, for MY 2019/20, Post projects exports to remain stable at 185,000 MT and imports to rise to 30,000 MT in order to meet the demand from the United States. The total amount of exports are expected to fill the U.S. annual sugar tariff-rate quota (TRQ) for FY 2019 due to price premiums in the U.S. market.

1. Production

For MY 2019/20, Post forecasts total sugar production will fall to 530,000 MT, as production zones are not expected to fully recover from the ongoing drought. For MY 2018/19, Post projects production of 560,000 MT as a drought continues to affect yields in the Dominican production zones. For MY 2018/19, the average industrial yield, which is not impacted greatly by climate conditions, is estimated to remain at approximately 11 percent. According to the Dominican Sugar Institute (INAZUCAR, which is part of the Ministry of Agriculture) and Post research, total sugar production was 615,974 MT during MY 2017/18, comprised of 444,247 MT raw and 171,727 MT refined sugar. The largest private producer (Central Romana) continues to dominate the Dominican sugar market, producing approximately 63 percent of the total production. Central Romana and INICIA are the only producers of refined sugar in the country.

2. Consumption

For MY 2019/20, Post forecasts consumption of sugar at 396,000 MT, a slight increase from the 393,000 MT projected for MY 2018/19. During MY 2017/18, local consumption of sugar remained stable at 390,000 MT, for an estimated per capita consumption of 83 pounds per person per year. Of this total, the Dominican market consumed approximately 54 percent raw sugar and 48 percent refined.

3. Trade

The United States remains the most important market for Dominican sugar. During MY 2017/18, according to INAZUCAR and Post research, exports of raw cane sugar totaled 184,255 MT, of which 100 percent was exported to the United States. For MY 2018/19 and MY 2019/20, Post projects exports to remain stable at 185,000 MT, subject to U.S. import quota allocations and the behavior of international market prices.

On July 17, 2018, the United States announced TRQ allocations for Fiscal Year 2019 (FY 2019). Once again, the DR received the largest single-country allocation, representing 17 percent of the entire TRQ. The allocation was distributed by the Dominican Government as follows:

FY 2019 U.S. TRQ ALLOCATION AND LOCAL DISTRIBUTION

Mill	Allocations of U.S. TRQ		
	Share (%)	*Quantity (MTRV)*	*Quantity (MTCV)**
Central Romana	62.84	116,465	111,583
INICIA	27.16	50,337	48,227
Consorcio Azucarero Central (CAC)	10.00	18,533	17,756
TOTAL	***100.00***	***185,335***	***177,566***

**MTCV: Metric Tons Commercial Value.*
Source: INAZUCAR, Decreto No. 393-18 http://www.inazucar.gov.do/files/Decreto-Zafra/Decreto-393-18-2018-19.pdf.

According to INAZUCAR and private sector contacts, the industry intends to fill its U.S. TRQ during FY 2019, and believes that a high utilization rate is important to maintaining the DR's position as the largest quota-holder. According to Post data, almost halfway into MY 2018/19, the DR has exported 139,907 MT to the United States (75 percent fill rate).

Smaller quantities of raw sugar are informally exported to neighboring Haiti in response to disparities in market prices. However, these quantities are not necessarily reflected in official export figures. According to Post sources, quantities may vary significantly per year depending on the relative price levels in Haiti and the DR. With decreased production and increased local prices, the quantity of exports to Haiti are expected to be limited during MY 2018/19 and MY 2019/20.

During FY 2018, the Dominican Republic also received the largest single country allocation for the annual U.S. TRQ: 185,335 MT, out of a total of 1,117,195 MT assigned. The DR filled 99 percent of its assigned TRQ. Allocations and execution per individual mill in FY 2018 were:

FY 2018 U.S. TRQ ALLOCATION AND EXECUTION

Mill	Allocations of U.S. TRQ		Execution of U.S. TRQ	
	Share (%)	*Quantity (MTRV)*	*Quantity (MTRV)*	*Non-executed (MTRV)*
Central Romana	62.84	116,465	116,274	191
INICIA	27.16	50,337	50,645	-308
Consorcio Azucarero Central (CAC)	10.00	18,533	18,266	267
TOTAL	***100.00***	***185,335***	***185,185***	***150***

**(MTRW): Metric Tons Raw Value.*
Source: INAZUCAR, Decree No. 313-16, http://www.inazucar.gov.do/files/Decreto-Zafra/Decreto-313-16.pdf; FAS CQI files.

In the context of the CAFTA-DR framework, an additional quota exists for products containing sugar. That quota is allocated to CAFTA-DR signatory countries each calendar year, based on the country's having a positive trade surplus on sugar and syrup goods[1] and availability. For FY 2019, the Dominican Republic did not receive an allocation of this quota.

The Dominican Republic imports limited quantities of sugar every year from various countries, including Guatemala, Mexico, Brazil, and Colombia. With lower levels of sugar production and stocks, Post projects import levels during MY 2019/20 at 30,000 MT, up from the 10,000 MT forecast to be imported during MY 2018/19.

Current in-quota import duties for raw and refined sugar are 14 percent and 20 percent, respectively, plus an 18 percent value-added tax (VAT)[2]. As part of its World Trade Organization (WTO) commitments under the Technical Rectification following the Uruguay Round, the DR Government established a TRQ of 30,000 MT for sugar (with the in-quota rates cited above), coupled with an out-of-quota tariff of 85 percent. Following these negotiations, the DR has often issued import permits for amounts in excess of 30,000 MT annually in order to cover shortfalls in domestic production. Generally, these additional amounts are assessed only the in-quota tariff rate. INAZUCAR is the entity responsible for administering the tariff quota for sugar.

[1] *In the Final Text of the CAFTA-DR Agreement, please see Appendix I to the Schedule of the United States to Annex 3.3 for more details:* http://www.ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file971_3958.pdf
[2] *The DR's value-added tax (VAT) is referred to locally as the "Impuesto a la Transferencia de Bienes Industrializados y Servicios" (ITBIS).*

Under the CAFTA-DR, Annex 3.3 of the Agreement establishes that the DR will phase out its tariffs on U.S. sugar over a 15-year period, beginning from the base rate of 85 percent. The rates will be at zero as of January 1, 2020. As of 2019, the current tariff rate is 5.67 percent. Tariffs on U.S. High Fructose Corn Syrup (HFCS) will also be phased out during a 15-year period, beginning from the base rate of 14 percent. As of 2019, the current tariff rate for HFCS is 0.93 percent.

4. Other products

In addition to raw sugar exports, other sub-products are produced for both local and international markets, representing important revenue sources for the industry. For example, for MY 2017/18, the industry produced 43 million gallons of molasses for industrial (rum) and livestock use. Molasses is sold locally and exported.

Another important product is furfural, which is used by oil refineries as a dissolving agent and is processed out of the cane fiber. Furfural is only produced by Central Romana, and according to INAZUCAR, their exports accounted for 32,901 MT in MY 2017/18.

5. Stocks

Producers hold the lion's share of stocks, which typically range from 45,000 to 65,000 MT. During MY 2018/19, stocks are projected at 66,000 MT, down from an unusually high MY 2017/18 stocks of 74,000 MT that were caused by a significant increase in production coupled by stable consumption and exports. For MY 2019/20, stocks are forecast to decline further to 45,000 MT, based on additional reduced production, slightly increased consumption and stable exports,

6. Policy

Several laws regulate the sugar sector in the Dominican Republic. Law 491 controls the relationship between private cane producers and millers and sets prices for raw cane based on sugar content. Similarly, Law 619 assigns regulatory functions to INAZUCAR and governs marketing (domestic and export), TRQ assignment, price schedules, and statistics.

For a number of years, the government has been promoting the use or development of an ethanol-gasoline blend, previously authorized by a long-standing law (2071) and reactivated by Decree No. 556-05 in 2005. Subsequently, the regulations outlined in the 2005 legislation were enacted in Law No. 57-07 (promulgated in May 2007), which seeks to encourage the development of renewable sources of energy and their special regimes. The effort to establish a mandate that would include a requirement of 10 percent ethanol in an ethanol-gasoline blend, and one of 20 percent biodiesel for a diesel blend, has stagnated. Both local and foreign investors remain hesitant to establish a mandate under such uncertainties. None of the major mills currently plan to install ethanol production facilities or are advocating for implementation of the blending mandate.

All of the major mills are, or soon will be, self-sufficient in energy production, and look to boost co-generation capacity from the incineration of sugar cane bagasse. Some of the mills, especially INICIA and CAC, continue to be interested in supplying energy to the national matrix (co-generation) to generate additional income.

7. Marketing

The Ministry of Industry and Commerce and INAZUCAR establish the base price for both raw and refined sugar based on historical prices and production estimates. In November 2018, both base prices were updated since the latest base price establishment (April 2016), as follows:

OFFICIAL PRICES FOR SUGAR (NOVEMBER, 2018)

Type of Sugar	Prices (US$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.33	0.36	0.40
Refined	0.39	0.42	0.46

**Average exchange rate of November 2018, according the central Bank: RD$50.01=US$1.*
Source: INAZUCAR, Resolution No. 001/2018; [http://www.inazucar.gov.do/files/resoluciones-precios/Resolucion-de-precios-No.001-2018.pdf.](http://www.inazucar.gov.do/files/resoluciones-precios/Resolucion-de-precios-No.001-2018.pdf)

The new prices represent an increase of 3-5% from producer to wholesaler, of 6-8% from wholesaler to retailer and 8-10% from retailer to consumer.

At the retail level, since January 2016, sugar has been taxed with an 18 percent VAT.

8. Statistics

Sugar Cane for Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	Nov 2017		Nov 2019		Nov 2020	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	115	115	115	115	0	110
Area Harvested	115	115	115	115	0	110
Production	5800	5800	5500	5500	0	5200
Total Supply	5800	5800	5500	5500	0	5200
Utilization for Sugar	5800	5800	5500	5500	0	5200
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	5800	5800	5500	5500	0	5200
(1000 HA) ,(1000 MT)						

Sugar, Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	16	16	72	74	0	66
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	615	616	560	560	0	530
Total Sugar Production	615	616	560	560	0	530
Raw Imports	16	16	10	10	0	30
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	16	16	10	10	0	30
Total Supply	647	648	642	644	0	626
Raw Exports	185	184	200	185	0	185
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	185	184	200	185	0	185
Human Dom. Consumption	390	390	390	393	0	396
Other Disappearance	0	0	0	0	0	0
Total Use	390	390	390	393	0	396
Ending Stocks	72	74	52	66	0	45
Total Distribution	647	648	642	644	0	626
(1000 MT)						