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Dominican Republic

Sugar Annual, 2014

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Report Highlights:

During Marketing Year 2012/2013 (MY 2013), sugar production reached 556,000 Metric Tons (MT) and Post estimates overall production of 575,000 MT during MY 2013/2014. For Calendar Year (CY) 2013, exports of raw cane sugar totaled 228,000 MT, while imports for the same period totaled an estimated 60,000 MT (final data not yet available). During CY 2014, Post estimates that imports will drop to around 10,000 MT and exports will increase to 246,000 MT. Finally, the Dominican Republic is not expected to fill the U.S. annual sugar tariff-rate quota (TRQ) for MY 2014 due to continued strong exports to the EU and the expected decline in operations at one of the 4 major mills.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:

According to the Dominican Sugar Institute (INAZUCAR) and Post research, total sugar production reached 556,601 MT during MY 2012/2013 (MY 2013), comprised of 385,551 MT raw and 170,050 MT refined. For MY 2014, Post expects overall production to increase to 575,000 MT, due to an expected increase in raw cane production of approximately 150,000 MT by the largest and most efficient mill in the country (Central Romana), coupled with expected increases in both industrial and agricultural yields at the other two major mills (owned by the Vicini Group and Consorcio Azucarero Central). For MY 2014 the average industrial yield of the industry is estimated at 11%.

The largest private producer (Central Romana) continues to dominate the Dominican sugar market and is expected to produce 395,000 MT in MY 2014, comprised of 220,000 MT raw and 175,000 refined. Central Romana is the only mill currently producing refined sugar, and is expected to remain so in the short term. The second largest producer (Vicini Group) is expected to produce 100,000 MT of raw sugar. Consorcio Azucarero Central which is the third largest producer, will add approximately 70,000 MT. Ingenio Porvenir recently came under the control of the Government following the collapse of the rental agreement between private investors and the Government. Post therefore expects a decrease in production of at least 50% for this mill during MY 2014, to only 10,000-12,000 MT.

According to Post interviews with the major mills and INAZUCAR authorities, the three largest mills plan to steadily increase via expansion in sugar cane plantings, adoption of new varieties and increasing the industrial yield. For MY 2014/2015 Central Romana is expected to produce 410,000 MT, comprised of 230,000 MT raw and 180,000 refined sugar. Vicini Group is expected to produce 132,000 MT of raw sugar. Consorcio Azucarero Central will add approximately 88,000 MT. The status of Ingenio Porvenir is uncertain, and it is considered unlikely that the mill will produce commercially significant quantities of sugar, if any.

Consumption:

During MY 2013 the local consumption of sugar was 380,000 MT for an estimated per capita consumption of 83 pounds per person/per year. Of this total, the Dominican market consumed approximately 52% raw sugar and 48% refined.

Post sources estimate an increase in consumption of approximately 2.3% for MY 2014, due to higher demand of refined sugar from the bakery and beverages industries, the tourism sector and due to population growth. If the Government reaches its goal of hosting 10 million tourists annually by 2024, local consumption could potentially increase by 40%.

Trade:

For MY 2013, according to INAZUCAR and Post research, exports of raw cane sugar totaled 162,434 MT, down from 209,000 MT in MY 2012. The reduction in exports is due mainly to reduced demand from the U.S. For MY 2014, Post expects increasing exports, projected at 214,000 MT due to a rebound in US demand and improved availability.

Despite recent soft demand, the U.S. market remains the most important one for the DR, importing a total of 91,434 during MY 2013. During Fiscal Year 2013 (FY 2013), the Dominican Republic received the largest single country allocation for the annual U.S. tariff-rate quota (TRQ): 188,908 MT, out of a total of 1,117,195 MT assigned. Nonetheless, the DR only filled 48% of the assigned TRQ. Allocations and executions per individual mill in MY 2013 were:

FY 2013 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	118,710	40,000	78,710
Grupo Vicini	25.20	47,605	45,434	2,171
Consorcio Azucarero Central	10.00	18,891	6,000	12,891
Ingenio Porvenir	1.96	3,702	0	3,702
TOTAL	100.00	188,908	91,434	97,474

*(MTRV): Metric Tons Raw Value.

Source: INAZUCAR, Decree No. 656-12, <http://www.inazucar.gov.do/2012/Decreto%20656-12%20Zafra%202012-2013.pdf>; INAZUCAR, Export Execution Report 2012/2013.

More recently, the U.S. announced allocations for FY 2014 and once again, the DR received the largest single-country allocation, representing 16.58% of the entire TRQ. The allocation was distributed by the Dominican Government, as follows:

FY 2014 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
Grupo Vicini	25.20	46,704	44,746
Consorcio Azucarero Central	10.00	18,533	17,756
Ingenio Porvenir	1.96	3,633	3,480
TOTAL	100.00	185,335	177,566

*MTCV: Metric Tons Commercial Value.

Source: INAZUCAR, Decree No. 324-13 <http://www.inazucar.gov.do/DECRETO%20324-13.pdf>.

According to comments by INAZUCAR, and private sector contacts, the industry intends to increase their utilization of the U.S. TRQ, and believe that a high utilization rate is important to maintaining the DR's positions as the largest quota-holder. Nonetheless, it is expected that exporters will continue to ship sugar to the EU during the present MY, possibly as much as 60-70,000 MT, similar to MY 2013.

In the context of the CAFTA-DR framework, an additional quota exists for products containing sugar¹. That quota is allocated to CAFTA-DR signatory countries each calendar year, based on the country's performance [1] and availability. However, for FY 2014 the Dominican Republic did not receive any allocation of this quota.

Prior to last year, the DR had not exported sugar to the EU since 2009, despite having preferential access as a member of the EU-CARIFORUM Economic Partnership Agreement (EPA). Historically, the DR prioritized filling the U.S. TRQ and only exported to the EU when supplies allowed. However the current price disparity between the US & EU markets makes it likely that Dominican producers will once again export substantial volumes to Europe. The, Dominican Republic exported 71,000 MT to the

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

UK, Portugal and Bulgaria during MY 2013. Leading suppliers to the EU were Central Romana, which exported 60,000 MT, followed by Consorcio Azucarero Central with 11,000 MT.

Smaller quantities are informally exported to neighboring Haiti in response to disparities in market prices. However, these quantities are not necessarily reflected either in official export figures. According to Post sources, quantities may vary between zero and 50-60,000 TM per year depending on the relative price levels in Haiti and the DR.

The Dominican Republic imports limited quantities of sugar annually. MY 2013 imports totaled 9,492 MT, down from 84,854 MT during MY 2012. Post expects imports levels to remain low during MY 2014. As of March 31, INAZUCAR had not approved any 2014 import permits.

Current in-quota import duties for raw and refined sugar are 14% and 20%, respectively, plus an 18% 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 corresponding in-quota rates cited above), coupled with an out-of-quota tariff of 85%. Following these negotiations, the DR has often issued (and continues to 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 and is a dependency of the Ministry of Agriculture.

Under the CAFTA-DR, Annex 3.3 of the Agreement establishes that the DR will phase out its sugar tariffs over a 15-year period, beginning from the base rate of 85%. The rates will be at zero as of January 1, 2020.

As of 2014, the ninth year of the Agreement, the current tariff rate is 34.05%. Tariffs on High Fructose Corn Syrup (HFCS) will also be phased out during the liberalization period, in accordance with a different liberalization schedule.

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 2013 the industry sold locally 13.5 million gallons of molasses for industrial and livestock use. Another 15.5 million gallons of molasses were exported during the same period.

Another important sup-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 31,261 MT—valued at \$20.6 million-- in MY 2013.

Stocks:

² The DR's value-added tax or VAT is referred to locally as the "Impuesto a la Transferencia de Bienes Industrializados y Servicios" (ITBIS).

Producers hold the lion's share of stocks, which typically range from 20,000 to 50,000 MT. During MY 2013, stocks rose to 68,000 MT due to the decline in exports. As consumption and exports rise this year, stocks are expected to decline slightly, to 50,000MT.

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 also 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 an old 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. The start date has been postponed several times and, and both local and foreign investors remain hesitant to support this plan under such uncertainties. None of the major mills currently plan to install ethanol production facilities.

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 Consorcio Azucarero Central, are interested in supplying energy to the national matrix (co-generation) to generate additional income. However, the lack of legal framework for commercial sales of that energy injects an element of uncertainty into those plans.

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. As of January 2014, the official sugar prices were as follows:

OFFICIAL PRICES FOR SUGAR (JANUARY 2014)

Type of Sugar	Prices (US\$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.30	0.33	0.37
Refined	0.35	0.38	0.42

**Average exchange rate of January 2014, according the central Bank: RD\$42.86=US\$1.*

Source: INAZUCAR, Resolution No. 001/2014; <http://www.inazucar.gov.do/RESOLUCION%20N0.001-2014.pdf>.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Dominican Republic	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Nov 2012		Market Year Begin: Nov 2013		Market Year Begin: Nov 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	235	100	235	106		116
Area Harvested	225	100	225	106		116

