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Dominican Republic

Sugar Annual
2017

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Report Highlights:
Post forecast overall sugar production of 530,000 Metric Tons (MT) during Marketing Year (MY) 2017/2018 (October/September). During MY 2016/17, Post projects sugar production of 520,000 MT, a significant increase from the 378,871 MT produced during MY 2015/16. Additionally, for MY 2017/18, Post projects exports to reach 200,000 MT and imports at 60,000 MT, based on expected return to normal rainfall patterns and a rebound in production yields. Finally, the Dominican Republic is estimated to fill the U.S. annual sugar tariff-rate quota (TRQ) for FY 2017 due to price premiums in the U.S. market.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

1. Production

During MY 2017/18, Post forecasts overall sugar production of 530,000 MT due to an expected return to normal rainfall and yield patterns.

For MY 2016/17 Post projects overall production at 520,000 MT as rainfall continues to improve in Dominican production zones and the country recovers from a severe drought that impacted local agriculture during the last couple of years. For MY 2016/17 the average industrial yield is estimated at 11 percent, similar to previous years. According to the Dominican Sugar Institute (INAZUCAR) and Post research, total sugar production reached 378,871 MT during MY 2015/16, comprised of 248,658 MT raw and 130,213 MT refined.

The largest private producer (Central Romana) continues to dominate the Dominican sugar market, producing approximately 61 percent of total production. Post projects Central Romana will increase its production to 330,000 MT during MY 2016/17, up from 232,558 MT produced during MY 2015/16. Central Romana is the only mill currently producing refined sugar and is expected to remain so in the short term.

The second largest producer (Ingenio Cristobal Colon/ INICIA Group, formerly the VICINI Group) is projected to produce 120,000 MT of raw sugar during MY 2016/17. During MY 2015/16, Cristobal Colon produced 96,591 MT of raw sugar. Consorcio Azucarero Central (CAC), which is the third largest producer, is projected to produce approximately 50,000 MT of raw sugar during MY 2016/17. During MY 2015/16, CAC produced 35,739 MT. Finally, Ingenio Porvenir is projected to produce 20,000 MT during MY 2016/17, a significant increase from the 13,983MT produced during MY 2015/16.

2. Consumption

Post does not forecast any significant increase in consumption during MY 2017/18 or MY 2016/17. During MY 2015/16 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 53 percent raw sugar and 47 percent refined.

3. Trade

The United States market remains the most important market for the DR. During MY 2017/18, Post forecasts exports at 200,000 MT, similar to Post projections for MY 2016/17. This forecast will depend on U.S. import quota allocations and the behavior of international market prices. During MY 2015/16, according to INAZUCAR and Post research, exports of raw cane sugar totaled 178,350 MT, slightly down from 186,236 MT in MY 2014/15. The decrease in exports was due mainly to a decrease in overall production.

The United States announced allocations for Fiscal Year 2017 (FY 2017) and 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 2017 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. 313-16 http://www.inazucar.gov.do/files/Decreto-Zafra/Decreto-313-16.pdf

According to comments by INAZUCAR and private sector contacts, the industry intends to fully use the U.S. TRQ during FY 2017, and believes that a high utilization rate is important to maintaining the DR's positions as the largest quota-holder. The industry is also open to receive an increased allocation during MY 2016/17. According to Post data, almost half way into MY 2016/17, the DR has exported 127,304 MT to the U.S. (69 percent fill rate). The DR is not expected to ship sugar to the EU in the short term.

Smaller quantities of 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 between zero and 50-60,000 MT per year depending on the relative price levels in Haiti and the DR.

During FY 2016, 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 country also received two additional allocations during the year: 1)15,897 MT and 2) 15,000 MT for a total allocation of 216,322 MT. The DR filled 96 percent of the initial assigned TRQ. Allocations and execution per individual mill in FY 2016 were:

FY 2016 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	111,900	4,595
Grupo Vicini	27.20	46,704	47,906	-1,202
Consorcio Azucarero Central	10.00	18,533	18,544	-11
Ingenio Porvenir	1.96	3,633	0	3,633
TOTAL	***100.00***	***185,335***	***178,350***	***6,985***

**(MTRW): Metric Tons Raw Value.*
Source: INAZUCAR, Decree No. 390-15, http://www.inazucar.gov.do/files/Decreto-Zafra/DEC.NO.%20390-15.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 performance[1] and availability. For FY 2017, the Dominican Republic did not receive an allocation of this quota.

The Dominican Republic imports limited quantities of sugar every year. With current levels of sugar production and stocks, post projects import levels during MY 2017/18 at 60,000 MT, down from the 80,000 MT forecast to be imported during MY 2016/17. During MY 2015/16, sugar imports where higher than usual (169,000 MT) due to a decrease in overall production and differentials between local and US prices.

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 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 percent. The rates will be at zero as of January 1, 2020. As of 2017, the ninth year of the Agreement, the current tariff rate is 17 percent. Tariffs on High Fructose Corn Syrup (HFCS) will also be phased out during the liberalization period, in accordance with a different liberalization schedule.

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 2015/16 the industry produced 28.1 million gallons of molasses for industrial and livestock use. Molasses is sold locally and also 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 21,266 MT in MY 2015/16.

5. Stocks

Producers hold the lion's share of stocks, which typically range from 20,000 to 50,000 MT. For MY 2017/18, as exports and production increases, stocks are forecast at 39,000 MT. During MY 2016/17, stocks are also projected at 39,000 MT.

6. Policy

[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).*

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 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 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 Ingenio Cristobal Colon and CAC, continue to be interested in supplying energy to the national matrix (co-generation) to generate additional income. However, the lack of a legal framework for commercial sales of that energy injects an element of uncertainty into those plans.

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. The prices set as of April 2016 are currently the official prices in the local market, as follows:

OFFICIAL PRICES FOR SUGAR (APRIL, 2016)

Type of Sugar	Prices (US$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.32	0.34	0.37
Refined	0.37	0.39	0.42

**Average exchange rate of March 2017, according the central Bank: RD$47.23=US$1.*
Source: INAZUCAR, Resolution No. 004/2016; http://www.inazucar.gov.do/files/resoluciones-precios/resolucion-de-precio-004-2016.pdf

At the retail level, since January 2016 sugar is taxed with an 18 percent VAT, a slight increase from the 16 percent tax applied during CY 2015.

8. Statistics

Sugar Cane for Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	Nov 2016		Nov 2017		Nov 2018	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	113	113	115	110	0	115
Area Harvested	113	113	115	110	0	115
Production	5000	4000	5400	5000	0	5200
Total Supply	5000	4000	5400	5000	0	5200
Utilization for Sugar	5000	4000	5400	5000	0	5200
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	5000	4000	5400	5000	0	5200
(1000 HA) ,(1000 MT)						

Sugar, Centrifugal	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2018	
Dominican Republic	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	52	52	24	24	0	39
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	379	379	450	520	0	530
Total Sugar Production	379	379	450	520	0	530
Raw Imports	112	112	110	80	0	60
Refined Imp.(Raw Val)	57	57	30	5	0	0
Total Imports	169	169	140	85	0	60
Total Supply	600	600	614	629	0	629
Raw Exports	186	186	185	200	0	200
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	186	186	185	200	0	200
Human Dom. Consumption	390	390	390	390	0	390
Other Disappearance	0	0	0	0	0	0
Total Use	390	390	390	390	0	390
Ending Stocks	24	24	39	39	0	39
Total Distribution	600	600	614	629	0	629
(1000 MT)						