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Honduras

Sugar Annual

2014

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Report Highlights:

Sugar production and exports for Honduras are projected up for marketing year 2014/15 on improvement in yields and the industry's efficiency capacity. The 2007 Law for the Production and Consumption of Biofuels has sparked the Government of Honduras and investors' interest in installing an ethanol production plant.

Executive Summary:

In Honduras, the production, commerce, and distribution of sugar are controlled by the private sector. Cane sugar production is carried out on 55,000 hectares of land. The sugar mills own around 60 percent of the land and the remainder is owned by independent producers.

Sugar production is projected up at 567,000 metric tons (MT) for marketing year (MY) 2014/2015. The increase is based on improved agricultural yields and efficiency, in addition to increased refining capacity. The MY 2014/15 sugarcane production is estimated up at 5.8 million MT on improvement in farm management practices.

Domestic sugar consumption is forecasted up at 319,000 MT in MY 2014/2015. The sugar industry is represented by the Honduran Sugar Producers Association (APAH). All seven sugar mills are members of APAH. These mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH. CISA distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging.

Marketing year 2014/15 sugar exports forecast is expected up at 248,000 MT, as APAH foresees an enhancement of sugarcane yields, milling technology, and new investments to increase exports. The free trade agreements with the European Union and Taiwan have opened new markets. Honduras complies with shipping its full tariff rate allocation to the United States and the World Trade Organization. According to the Central Bank of Honduras preliminary data, sugar exports reached \$66 million in 2013.

The sugar mills produce the energy that used during the November – May harvest months. The excess energy generated is sold to the GOH's National Enterprise of Electric Energy (ENEE). The sugar mills supply about 20 percent of the renewable energy produced in Honduras. The energy sold to ENEE is cheaper than the market price; however, from June to October there is no sugarcane harvest, which limits energy production. Honduras saves about \$360 million per year using the energy generated by sugarcane bagasse.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:**Sugarcane**

Sugarcane is grown on 55,000 hectares (ha) in the northwest, central, and southern parts of Honduras of which 60 percent is owned by the sugar mills and independent producers own 40 percent. Among the independent producers, 55 percent are small producers (1-18 ha.), 22 percent medium producers (18-53 ha.), and 23 percent large producers with more than 53 hectares. Independent sugar producers have

increased their area of production gradually after the 1992 Agricultural Modernization Law which limited land expansion of sugar mills.

Sugarcane MY 2014/15 production is estimated up to 5.8 million MT. The increase foresees an enhancement in practices to obtain higher yields, assistance to independent producers, and the evaluation of seeds and technical assistance developed in sugar mills. The technicians at the mills are also members of the Association of Central American Sugar Technicians. Through this association, members share information and technological advances.

The areas planted and harvested in MY 2014/2015 are forecasted up from the previous year. Sugar mills are expected to improve yields and equipment investment to meet export opportunities resulting from the new trade agreements. The forecast looks forward to the legal compliance of land security. In order to have land security for sugar production, dualities in the Agrarian Reform of 1970 and the Agricultural Modernization Law of 1992 need to be analyzed. Land tenure lawyers have stated that there are dualities in both laws. This will guarantee further incentives to investment in agricultural and milling improvement.

Sugar

Sugar production is in hands of the private sector. The sugar industry is comprised of seven processors (sugar mills) and 11 warehouses for sugar storage. Production for MY 2014/15 is forecast at 567,000 MT, as there are improvements in agricultural yields and the industry's efficiency capacity. Marketing year 2013/2014 decreased production was due to the effects of floods and land invasions. During the land invasions sugarcane was not given enough irrigation and fertilizer. (Please refer to Honduras 2013 Sugar Annual GAIN report for additional information.)

Sugar mills are working at 95-100 percent of their productive capacity. The mills are investing in response to the demand for sugar in the market. The recovery rate of sucrose from sugarcane is between 9 and 10 percent. From the area harvested, 96 percent of the sugarcane enters into production and 4 percent is kept for research and replanting. In recent years, the sugar industry in Honduras has been investing in infrastructure and equipment, thus increasing refining capacity and improving efficiency. The main factors that affect sugar production in Honduras are rains, floods, droughts, insecurity, land tenure, and access to credit.

Independent producers were affected by the financial crisis and bank requirements that reduced available credit. Producers are faced with a "high-risk" classification that banks give to loans to the agricultural sector because of a lack of collateral and bad credit history within the sector.

APAH and the Sugar Producers Federation (FEPROCA) have organized a Committee. The objective of the Committee is to provide support to independent producers to have access to credit with banks and provide them opportunities to take advantage of their potential.

In 2005, the sugar mills created the foundation FUNAZUCAR. FUNAZUCAR develops programs to deliver incentives to sugarcane workers and assist the communities where the sugar mills are located. They implement literacy programs for young people and adults, trainings to micro enterprises, health care, school meals, educational material. Also, computers and solar panels have been installed in the

some schools. The sugar mills provide independent producers harvesting equipment, road maintenance, in addition to teacher salaries. Credit for small enterprises is also provided in the communities where the sugar mills are located. APAH's initiative and the FUNAZUCAR contributed to abolishing child labor. This was accomplished by including in producers' contracts the prohibition of hiring children and by placing signs in buses and public areas about this prohibition.

Consumption:

Domestic sugar consumption in Honduras is raised to 319,000 MT for MY 2014/2015. The consumption of alternative sweeteners will have minimum impact. The consumer price for the domestic market is unchanged since 2010. The Ministry of Industry and Trade (SIC) must authorize any change, as sugar is considered a basic commodity that affects the cost of living. Per capita sugar consumption is estimated at 80 pounds per person of which 51 percent is for beverages, candy factories, and baked goods. The remaining 49 percent is for direct use.

Average Sugar Prices for Plantation White (Standard) and Refined Sugar Honduras, 2013 <i>US\$/pound</i>		
Sale place	Plantation white	Refined
Wholesale	0.32	0.34
Consumer	0.38	0.42

Source: Honduran Sugar Producers Association

Additional information can be found at the Honduran Producers Sugar Association website: www.azucar.hn. At present, 1.00 US Dollar equals 19.1450 Honduran Lempira.

Trade:

The forecast for sugar exports for 2014/2015 is estimated to 248,000 MT due to the sugar industry's investment to improve sugarcane yields, milling technology and refining capacity. APAH foresees that sugar mills will expand and there will be new investments to increase exports. This is due to the entry into effect of new Free Trade Agreements (FTA's) which opened new markets for Honduras with the European Union and Taiwan in 2013.

It should be noted that countries of the Central American region cannot export or import raw sugar to their region. This is an agreement within the Central American Customs Union (CACU). All the raw sugar surplus of CACU members is exported out of the Central American region.

The main destinations for Honduras's sugar exports were the United States, Canada, Haiti, United Kingdom, Trinidad and Tobago and Taiwan. The volume of imports increased in 2013 compared to the previous year. The import tariff for raw sugar and plantation white (standard) is 40 percent (consumption tax is not charged). The import tariff for refined sugar is 15 percent plus a 12 percent consumption tax. By law, quality restrictions require Vitamin A to be added to sugar for human consumption, which is done by the Honduran sugar industry. The import tariff for raw sugar averages US\$0.20 per kilogram. The import tariff for refined sugar is US\$0.18 per kilogram, according to APAH's estimate based on average U.S. sugar contract #16 prices.

Honduras - Sugar, Centrifugal Exports, 2013

Country	Metric Tons
United States	33,208
Canada	19,453
Haiti	16,813
United Kingdom	13,110
Trinidad and Tobago	12,295
Taiwan	10,025
Jamaica	9,362
Dominican Republic	5,109
Yemen	3,000
Saint Vincent & Grenadines	2,613
Congo	2,528
Granada	2,499
Cameron	2,178
Others	8,076
TOTAL	140,269

Source: Central Bank of Honduras. Preliminary data.

Honduras - Sugar, Centrifugal Imports, 2013

Country	Metric Tons
United States	105
Others	200
TOTAL	305

Source: Central Bank of Honduras. Preliminary data.

NOTE: The exports and imports data in the production, supply, and distribution (PS&D) tables differ from the above export and import matrices. The difference is because of the manner of calculation of sugar export statistics by APAH and the Central Bank of Honduras: APAH export statistics include sugar which has been contracted for export, while the statistics of the Central Bank of Honduras only include sugar which has already been physically exported from Honduras.

Stocks:

Stocks are owned by seven processors (sugar mills) and their sugar is stored in CISA warehouses that are located in Tegucigalpa and San Pedro Sula. Stock levels are expected to remain at normal levels in MY 2014/2015.

Honduras has new free trade agreements (FTA's) which opened markets for sugar with the European Union and Taiwan. The country complies with shipping its full tariff rate allocation with the United States, World Trade Organization, the European Union (EU) and Taiwan quotas. After these markets have been supplied, the sugar mills will then proceed to export to the rest of the world. The FTA with the EU approved sugar tariff rate quotas (TRQ) of 19,464 MT annually with an increase of 262 MT

each year. Exports to the EU began in the middle of 2013. The FTA with Taiwan provided a TRQ of 10,000 MT in 2013, with an increase to 50,000 MT annually beginning in 2014. According to the Central Bank of Honduras, sugar exports reached \$66 million in 2013. The FTA with Mexico has been ratified, but sugar TRQs were not negotiated; however, there was an agreement that Honduras will have preferential access to ten percent of Mexico's no-supply quota. The FTA with Canada will bring a 2,500 MT sugar TRQ when ratified. Honduras does not have export taxes: they were eliminated in order to follow WTO recommendations.

Policy:

The GOH does not have an overall policy related to sugar. The Secretariat of Agriculture and Livestock, the Secretariat of Industry and Trade, sugar mills, and independent producers created the National Sugar Council through the 2005 Decree 161-2005. The objective of the National Sugar Council is to regulate matters between independent producers and sugar mills related to land tenure and technical assistance.

Honduras does not currently have a program to divert raw material to non-sugar uses, such as direct conversion to alcohol; however, APAH worked and lobbied the Honduran Congress for the approval of the 2007 Law for the Production and Consumption of Biofuels. The law provides fiscal incentives, such as exemptions from customs tariffs, income tax, and other related taxes for 12 years. The regulations for the implementation of the law have been written and they will make clear the percentage mix of ethanol with gasoline. The sugar industry foresees ethanol investment in 2014-2015. Discussions between the Government of Honduras (GOH) and private investors are taking place for the installation of an ethanol production plant.

One sugar mill completed a study of the infrastructure and funding requirements to build an ethanol processing plant. According to data from 2008, the cost would be about around \$40 million if the plant were installed in an existing sugar mill. If a new sugar mill and ethanol processing plant were built, the cost would be between \$170-200 million. Honduras does not have policies regarding development of competing commodities.

Sugar mills produce the energy that they use during the November – May harvest months through the use of bagasse, generating 128 Megawatts per hour (Mwh) with a potential of 344 Mwh of electricity. The excess energy generated is sold to the GOH's National Enterprise of Electric Energy (ENEE). Sugar mills supply about 20 percent of the renewable energy produced in Honduras. APAH indicated that the sugar mills sell the energy for US\$0.07 per Kilowatt versus the US\$0.25 per Kilowatt provided by other energy companies provide. The price the sugar mills sell the energy to ENEE is less expensive than the market price. From June to October, however, there is no sugarcane harvest, which limits energy production. Honduras saves about \$360 million per year using the energy generated by sugarcane bagasse.

The seven sugar mills sell their production to a central warehouse, Sugar Miller's Central (CISA), which is owned by APAH and has 11 warehouses in the country. CISA distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging. CISA has also increased its distribution areas in the northern region of the country. It was using one quintal bags (equivalent to 45.36 kilograms, or 100 pounds). CISA has changed, however, to 50 kilogram bags to

bring Honduras in line with neighboring countries. It also has small packages to offer to restaurants and hotels, as well as at the retail level.

Production, Supply and Demand Data Statistics:
(1000 MT)

Sugar, Centrifugal Honduras	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	238	238	238	239		238
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	511	503	537	530		567
Total Sugar Production	511	503	537	530		567
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	749	741	775	769		805
Raw Exports	174	198	190	218		248
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	174	198	190	218		248
Human Dom. Consumption	337	304	347	313		319
Other Disappearance	0	0	0	0		0
Total Use	337	304	347	313		319
Ending Stocks	238	239	238	238		238
Total Distribution	749	741	775	769		805
TS=TD		0		0		0

Sugar Cane for Centrifugal Honduras	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Sep 2012		Market Year Begin: Sep 2013		Market Year Begin: Sep 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	51	55	54	58		60
Area Harvested	48	53	51	55		58
Production	4,757	5,046	4,995	5,439		5,814
Total Supply	4,757	5,046	4,995	5,439		5,814
Utilization for Sugar	4,757	5,046	4,995	5,439		5,814

Utilization for Alcohol	0	0	0	0		0
Total Utilization	4,757	5,046	4,995	5,439		5,814
TS=TD		0		0		0