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Dominican Republic

Sugar

Annual

2006

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Report Highlights:
Dominican sugar production is estimated at 520,000 metric tons for the (November 2005-October 2006 marketing year). Domestic consumption is fairly stable at 330,000 metric tons, 55-60% raw and the rest refined. Small quantities of refined or semi-refined sugar may be required to meet market requirements in MY 2006. The Dominican Republic continues to receive the largest single-country allocation. This year (October-September) the quota increased to 252,935 metric tons.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

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Section I

Executive Summary

Dominican sugar production is estimated at 520,000 metric tons for November 2005 – October 2006 marketing year (MY2006). The two largest private producers, Central Romana and the Vicini group, are expected to produce almost 450,000 metric tons of this amount, with other mills accounting for the remainder. Production levels for the out year MY2007 will remain at the current level.

Domestic sugar consumption is fairly stable at 330,000 metric tons, 55-60% raw and the rest refined. The general public consumes sugar mostly in raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. With refined sugar production at 148,000 metric tons for MY2005, the country's total refined sugar needs are met and no imports are anticipated. If production and/or consumption levels are not met in MY2006, imports will be required.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the highest single-country allocation. According to official data, production and consumption levels anticipate fulfilling the U.S. Tariff Rate Quota for the Dominican Republic, which had been steady at 185,335 metric tons in recent years and increased to 252,935 MTRV for the current allocation (Oct 2005-Sept 2006). If the DR-CAFTA agreement is implemented, an additional 10,000 metric tons, with two percent yearly growth, would be added to the quota. However, the DR does not currently meet the net-exporter requirement of the agreement, blocking any increase in quota. Implementation of the agreement is being pursued in both countries in 2006.

Section II

Production

The two largest private producers, Central Romana and the Vicini group continue to dominate the Dominican sugar market and are expected to produce over 420,000 metric tons raw value in the November 2005–October 2006 marketing year (MY2006), somewhat higher when compared to last year, when the harvest was far from optimal. The remaining 4 mills combined are expected to produce an additional 75,000 metric tons. Because of extremely dry conditions that prevailed last year, everyone anticipates improvement in rainfall pattern, so would sugarcane yields would improve. The MY2007 production estimate assumes a closer to average rainfall pattern and a similar sugar output.

During the Dominican sugar golden years in the late seventies, the total output surpassed 1.2 million tons. Production gradually fell to an all-time low of 371,000 metric tons in MY1999. This production decline was mainly due to technical, administrative, and financial difficulties with the state-owned sugar mills controlled by the State Council of Sugar (Consejo Estatal del Azucar or CEA), the major producer at the time. During CEA's peak production years, they operated twelve mills producing almost two thirds of the country's output. In addition, the private sector had three mills in operation. A hand full of these mills, through a joint venture arrangement, are now administered by private companies, As a result of the privatization process, production has become more stable.

In 1999, after long discussions, the Dominican Government concluded the privatization of the deteriorated state-owned sugar mills. The administrative transfer of the mills to private hands took place in calendar 2000. This capitalization process concluded with a 30-year rental agreement with private firms. The Consorcio Azucarero del Caribe, a Zurcamex subsidiary (from Mexico), invested in five mills (Rio Haina, Ozama, Boca Chica, Quisqueya and Consuelo), but collapsed shortly afterwards**.** By MY2003, a new version of the investment group called Central Azucarera Consuelo reemerged but with only two of the five mills (Boca Chica and Consuelo) while the other three had been canibalized and are non operational. A second company, Dominican-owned Consorcio Agroindustrial Caña Brava, operated two of the smallest mills (Monte Llano and Amistad), one of which continues to operate but it is not certain that they will harvest this year. A third local enterprise, the Central Pringamosa invested in two mills, Santa Fe and Porvenir; however, both mills are now closed. After the collapse of this group, CEA recently indicated that they would operate the Porvenir mill during the current MY2006 harvest. We will keep close watch to their operation in coming months. Finally, a Dominican-French-American group owned by AMEROP sold the Barahona mill concession to a Guatemalan consortium, Consorcio Azucarero Central. With fresh investment, this mill is operating successfully at partial capacity. A breakdown of official data on sugar output by producer group follows:

TOTAL SUGAR PRODUCTION BY COMPANY
MY2002 - MY2005, Metric Tons

Sugar Mill Group	MY2002	MY2003	MY2004	MY2005
Central Romana	272,272	317,810	410,536	334.819
Central Azucarero Consuelo	46,655	60,991	48,053	34,685
Grupo Vicini	59,408	80,893	76,883	58,065
Central Azucarera del Este	39,684	0	0	0
Consorcio Pringamosa	15,128	0	0	0
Consorcio Caña Brava	18,674	14,425	11,313	9,038
Consorcio Azucarero Central	11,965	23,007	27,151	29,039
Ingenio Cruz Verde	0	0	0	0
Total	***463,766***	***497,126***	***573,936***	***465,988***

Source: Dominican Sugar Institute (INAZUCAR) and post estimates.
Post estimates are lower as official numbers remain preliminary.

There is only one sugar refinery operating in the country at the present time. Central Romana continues to be the sole refined sugar producer with a total output of 148,000 metric tons in MY2005. According to INAZUCAR, production pattern for MY2006 should remain at the same levels as in MY2005, meeting most of the country's refined sugar needs. However, the higher demand of raw sugar for the U.S. quota may require some adjustments. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry. According to the Dominican Sugar Institute (INAZUCAR) statistics for MY2005, the sugar industry produced about 35.2 million U.S. gallons of molasses. In addition to the molasses produced by all the operating mills, Central Romana produced almost 31,300 metric tons of furfural.

Central Romana and the Vicini group generally begin the sugar harvest in early to late December, while Consorcio Azucarero Consuelo begins in January-February. It also appears in MY2006 that Porvenir mill will re-open and begin operations under the old CEA's administration during the current harvest. As a result, the first group of mills is able to process more cane before the rainy season which typically interrupts the harvest in late June or early July. The second cycle sugar groups, with a different climatic pattern due to their geographical location in the island, begin milling operations in June. This includes Concorcio Azucarero Central and Consorcio Caña Brava.

Rainfall patterns, fertilization, and labor are the main factors that determine sugar yield. Industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana, and sometimes other groups do minimal amounts of aerial spraying. Less than half of the land in sugar cane production is irrigated and, as a consequence, is subject to stress during dry periods, as it showed last year's data.

The sugar industry requires about 30-35,000 full-time workers and an additional 15,000 to 20,000 temporary cane cutters during harvest. Only about 10 to 15 percent of sugar cane is harvested mechanically. The degree of mechanization will not increase in the future, unless labor costs increase, which is not likely.

Cane yields vary between 30 and 80 metric tons per hectare, depending upon location, rainfall patterns, available transport resources, cane varieties and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. During the last ten years, the sugar recovery rate averaged nearly 10.6 percent, but has been lower during the most recent five years. In MY2005, sugar recovery rates averaged 10 percent, while Central Romana was somewhat higher (about 11.7 percent). Estimates for MY2006 and projections for MY2007 are not anticipated to be much different.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates have varied widely, however, between 8 and 12.5 percent. Sugar content also fluctuates between seven and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Local cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic. Some of the sugar cane crosses used in the DR are CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Cost of production varies substantially from company to company, ranging from US$ 0.14 to US$0.22 per pound.

Consumption

Domestic sugar consumption is fairly stable at about 330,000 metric tons, with 55 to 60 percent consumed raw and the rest as refined sugar. The general public consumes sugar mostly in raw form, while the soft drink and juices and confectionary industries primarily use refined sugar. Central Romana is the only local refiner and is estimated to produce about 150,000 metric tons, which is close to their maximum capacity. Semi-refined sugar has not been manufactured in the last five years.

The following table is derived from INAZUCAR data and shows the pattern of local sugar sales.

LOCAL SUGAR SALES BY PRODUCERS
Metric Tons

Sugar type	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005
Raw	195,243	189,184	184,440	188,500	184,939*
Refined	117.956	154,036	134,455	139,500	148,553*1
Semi Refined	0	0	0	0	0
Total	313,199	343,220	318,895	328,000	333,492*

*Preliminary estimate.
Source: INAZUCAR and Industry.

Post anticipates that lower quantities of refined sugar may be produced in in MY2006 in order to have enough raw sugar available to cover the additional U.S. quota allocation. The shortage of refined sugar created could be filled with imported refined or semi- refined sugar.

Trade

Refined sugar production for MY2005 was almost 150,000 metric tons and it met the country's total refined sugar needs and make it unnecessary to import refined sugar. Preliminary estimates for MY2006 may require some imports.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the largest single country allocation of 16.4 percent of the total U.S. allocation for the world. The DR's initial TRQ allocation for MY 2005, at 202,649 metric tons, higher than 185,335 MT from previous years, and later adjusted to 252,935 MTRV. Under the recently negotiated DR-CAFTA free trade agreement, an additional 10,000 MT would be added to the current quota, with two percent growth per year, if the DR can meet the net exporter requirement of the agreement. However, this seems unlikely. The final ratification of this agreement was reached in 2005 and is currently pending implementation, perhaps as early as July 2006.

As of the end of March 2006, only 74,000 metric tons raw value have been requested for export to the United States under the 2005/06 TRQ. Most exports are now moving to the United States, because of price and proximity, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti. The following table presents monthly sugar exports to the United States, for the past five marketing years:

DOMINICAN MONTHLY RAW SUGAR EXPORTS TO THE UNITED STATES
MY 2002 - MY 2006

Month	01/02	02/03	03/04	04/05	05/06
January	11,205	6,150	24,847	8,962	31,472
February	6,000	272	6,527	6,426	28,700
March	12,694	18,402	7,674	12,400	12,759
April	15,072	41,106	13,730	39,700	
May	37,274	26,797	21,639	22,032	
June	36,844	11,872	32,867	25,917	
July	22,136	28,963	37,462	40,450	
August	30,820	6,200	23,031	10,736	
September	6,800	38,877	10,318	9,958	
October	321	272	1,376	680	
November	227	45	136	272	
December	908	227	544	181	
Total Calendar Year	179,734	179,183	180,151	177,714	72,931
Total Quota Year	179,563	-	180,468	178,077	-
Quota	185,346	185,335	185,335	185,335	252,935

Note: Values have not been adjusted to 98 degrees Pol.
Source: INAZUCAR and post estimates.

Import duties are 15 percent for raw sugar and 20 percent for refined sugar, plus a 16 percent value-added tax, referred to by its Spanish acronym ITBIS. Imports of sugar and sugar-based products still require permits from INAZUCAR (decree 576-96). With the tariff rate quota negotiated in the Uruguay Round in mind, the Dominican Republic has stated that it could issue permits for up to 23,000 metric tons imports on a first-come, first-serve basis. However, in MY2004 and MY2005 the Secretary of Industry/INAZUCAR authorized no imports. With just the 20 percent tariff and 16 percent ITBIS, refined sugar imports (in quota) would enter the country at prices well below those of domestic sugar.

Under the recently negotiated, approved and ratified DR-CAFTA agreement, the DR will reduce its sugar duties from 85% to zero over a fifteen-year period. HFCS will also disappear in the same period.

There are two industries and sister companies operating as off-shore plants belonging to a special Free Trade Zone (Consejo Nacional de Zonas Francas de Exportacion [CNZFE]) operation, using sugar as a raw material. These companies are Productos del Tropico and Caribex Dominicana, and their major products for the export market are sweetened coconut milk and piña colada mix. They also produce juices and smaller quantities of canned red-pinto-beans and garbanzos, which contain some sugar. According to CNZFE, they are authorized to import/process and reexport as much as 6,600 MT of sugar per year. Sugar that is brought into the free trade zones and then reexported as finished products does not require an import permit and is not reflected in Dominican import statistics. Ag Office import estimates in this report do not include the free trade zone sugar.

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry.

According to preliminary INAZUCAR statistics for MY2005, sugar exports to the U.S. preferential market represented about US$73 million. In addition, the sugar industry produced 38 million gallons of molasses. About 20 million gallons of which were used for local consumption and a similar quantity (valued at $10 million) was exported. In addition to molasses, 33,000 MT of furfural were exported, for an additional US$14 million in revenues.

Stocks

Sugar stocks are mostly held by producers. In addition, middlemen and wholesalers also carry stocks. As no imports were authorized in MY2005 and higher volumes were produced, stock levels should fall very low in MY2006 but could also range ten times higher earlier in the season. Although it is early to anticipate, these values may vary in the out year.

Policy

Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

For over thirty years, the U.S. sugar quota was divided among the three producers according to an established formula based on last three-year individual production levels. According to that formula, the allocations last year were Central Romana 56.31 percent, Vicini 12.48 percent, Central Azucarero Consuelo 18.56 percent, Consorcio Azucarero Central, 7.87 percent, and Caña Brava 4.78 percent.

As part of its WTO rectification agreement, after the Uruguay Round, the Dominican Government established a tariff rate quota for 23,000 metric tons of sugar, with an in-quota tariff level of 15 percent for raw while 20 percent for the refined. This gradually increased to 29,000 metric tons today and 32,000 metric tons by the end of 2005. Maximum out-of-quota tariffs were established at 100 percent, decreasing to 86.5 percent in 2005.

Under the new DR-CAFTA agreement the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period.

Marketing

The Secretary of Industry and INAZUCAR establish the base price of raw, semi-refined and refined sugar. As a result, prices are stable and producers sell directly to wholesalers and to large companies that use sugar in their product formulations. As of March 2006, the official sugar prices were as follows:

Official Prices for Sugar (March 2006)

Type of sugar	***Producer (per 100 lbs.)***	***Wholesaler (per 100 lbs.)***	***Retailer (per lb.)***
Raw	675.00	736.00	8.10
Semi-refined	N/A	N/A	N/A
Refined	810.00	890.00	9.90
Exchange rate per US$: RD$33.00 pesos			

Source: INAZUCAR

Dominican sugar cane prices are stable and are generally guided by the exchange rate. While the 2004/2005 showed a slight average decrease of US$0.10/ton current prices remained unaltered. Also, the retail prices for sugar have remained stable during the last twelve months. As of March 2006, prices for crude sugar ranged from US$0.33 to US$0.35 per pound (RD$8.10-10.00). Refined sugars ranged from US$0.41 to US$0.45 per pound (RD$10-13). Supermarkets generally sell raw sugar in two and five-pound packages, while small neighborhood stores (colmados) sell in very small amounts to meet the needs of lower-income consumers.

Section III

Statistical Data

PSD Table

Country Dominican Republic
Commodity Sugar Cane for Centrifugal (1000 HA)(1000 MT)

	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [	Estimate[NA	Official [	Estimate[NA	Official [	Estimate[New]	
Market Year Begin		11/2004		11/2005		11/2006	MM/YYYY
Area Planted	250	250	250	250	0	250	(1000 HA)
Area Harvested	238	238	240	240	0	240	(1000 HA)
Production	5100	4951	5150	5050	0	5100	(1000 MT)
TOTAL SUPPLY	5100	4951	5150	5050	0	5100	(1000 MT)
Utilization for Sugar	5100	4951	5150	5050	0	5100	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	5100	4951	5150	5050	0	5100	(1000 MT)

PSD Table

Country Dominican Republic
Commodity Sugar, Centrifugal (1000 MT)

	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [	Estimate[NA	Official [	Estimate[NA	Official [	Estimate[New]	
Market Year Begin		11/2004		11/2005		11/2006	MM/YYYY
Beginning Stocks	60	60	28	19	12	5	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	485	466	520	520	0	520	(1000 MT)
TOTAL Sugar Production	485	466	520	520	0	520	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	15	0	0	(1000 MT)
TOTAL Imports	0	0	0	15	0	0	(1000 MT)
TOTAL SUPPLY	545	526	548	554	12	525	(1000 MT)
Raw Exports	183	183	204	227	0	183	(1000 MT)
Refined Exp.(Raw Val)	2	2	2	2	0	2	(1000 MT)
TOTAL EXPORTS	185	185	206	229	0	185	(1000 MT)
Human Dom. Consumpti	332	322	330	320	0	322	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	332	322	330	320	0	322	(1000 MT)
Ending Stocks	28	19	12	5	0	18	(1000 MT)
TOTAL DISTRIBUTION	545	526	548	554	0	525	(1000 MT)