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El Salvador

Sugar

Annual

2006

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Report Highlights:
Sugarcane planted area in 2005/06 remains similar to 2004/05 reaching 61,000 hectares. However, sugar recovery yields have improved during the 2005/06 harvest mainly due to added investment, which increased efficiency in the milling process. The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. Most sugar exports are destined to Russia, Canada and to the U.S. re-export market. Additional Tariff Rate Quota (TRQ) under the Central America Dominican Republic Free Trade Agreement (CAFTA-DR) as well as to Hurricane Katrina's damage to U.S. production, have provided a boost to the Salvadoran sugar industry in 2005/06. The sector continues to get tariff protection by the Government of El Salvador (GOES). The Ministry of Agriculture (MAG) continues efforts to shift traditional agricultural production into more profitable non-traditional export crops. The GOES and the sugar industry continue discussions on mixing ratios for ethanol and gasoline. Pressed by record high oil prices, the GOES is working on a law for production of alternative fuels, including ethanol, which could be ready by the end of 2006.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

Higher yielding sugarcane varieties, diversification of industry to produce energy and alcohol/ethanol, investment in milling equipment to improve sugar yields, additional access to the U.S. market due to CAFTA-DR and record high international prices provide a positive outlook for El Salvador's sugar industry in the 3 to 5 year term. A National Sugar Law for commercialization, production and distribution of sugar is an important component to the reengineering process that the industry has undergone. In addition, assisted by higher prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters such as tropical storm Stan and lack of government policies to assist sugar farmers. However, ultimately the success of the industry will rely on compliance with the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and ethanol production.

Sugarcane production for the 2005/06 harvest is estimated at 4.44 million MT, 7.2 percent lower than the USDA database, mainly due to negative effects on production by natural disasters. Production for 2004/05 has been increased to 4.79 million MT mainly due to the use of higher yielding varieties.

Decreased sugar production led to reduced sugar exports in 2005/06. New data provided by CONSAA shows exports decreasing by 14,000 MT compared to 2004/05. Sugar production is expected to reach 544,000 MT in 2005/06. Sugar production for 2006/07 is expected to increase due to additional planted area motivated by higher prices. However, weather conditions will continue to play a major role in future production. The natural phenomenon La Niña is expected to increase rainfall considerably in 2006/07 posing a threat to sugarcane production.

El Salvador exports only raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is $ 0.31 per pound plus a 13 percent value-added-tax.

The Salvadoran sugar industry seems to be improving its production scenario. Sugar production is expected to be higher in 2006/07 reaching approximately 591,000 MT. Area planted is expected to increase to approximately 63,000 Has.

El Salvador is planning to capitalize on a CAFTA-DR 6.6 million duty free ethanol quota that will grow annually until it reaches 25 million gallons in 2020.

El Salvador Sugar Cane for Centrifugal							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2004		11/2005		11/2006	MM/YYYY
Area Planted	61	61	61	61	0	63	(1000 HA)
Area Harvested	59	59	59	59	0	61	(1000 HA)
Production	4789	4791	4790	4446	0	4850	(1000 MT)
TOTAL SUPPLY	4789	4791	4790	4446	0	4850	(1000 MT)
Utilization for Sugar	4789	4791	4790	4446	0	4850	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	4789	4791	4790	4446	0	4850	(1000 MT)

El Salvador Centrifugal Sugar							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2004		11/2005		11/2006	MM/YYYY
Beginning Stocks	27	27	19	197	0	12	(1000 MT)
Beet Sugar Production	0	0	0		0	0	(1000 MT)
Cane Sugar Production	550	554	555	544	0	591	(1000 MT)
TOTAL Sugar Production	550	554	555	544	0	591	(1000 MT)
Raw Imports	0	0	0		0		(1000 MT)
Refined Imp. (Raw Val)	0	0	0		0		(1000 MT)
TOTAL Imports	0	0	0		0		(1000 MT)
TOTAL SUPPLY	577	581	574	563	0	603	(1000 MT)
Raw Exports	330	333	334	319	0	356	(1000 MT)
Refined Exp. (Raw Val)	0	0	0		0		(1000 MT)
TOTAL EXPORTS	330	333	334	319	0	356	(1000 MT)
Human Dom. Consumption	228	229	228	232	0	236	(1000 MT)
Other Disappearance	0	0	0		0		(1000 MT)
Total Disappearance	228	229	228	232	0	236	(1000 MT)
Ending Stocks	19	19	12	12	0	11	(1000 MT)
TOTAL DISTRIBUTION	577	581	574	563	0	603	(1000 MT)

Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2005/06 sugar cane harvest is expected to reach 4.44 million MT. Sugar production is estimated to reach 544,000 MT in 2005/06. Even though sugarcane production decreased, higher sugar recovery yields managed to keep sugar production from sinking lower. Sugar recovery yields averaged approximately 122 kilograms per MT, up 6% from the previous year's output. This improvement in recovery yields is attributed to controlled sugar cane burning during harvest, new sugar cane varieties that are more resistant to pests and diseases and to new investments in the sugar milling process. Sugar production is expected to increase in 2006/07 reaching approximately 591,000 MT.

Area planted remains stable at 61,000 has. in 2005/06. The Sugar Association is expecting area planted in 2006/07 to reach 63,000 has. mainly due to higher international prices for sugar. Area that was expected to be devoted to cotton production is now expected to shift to sugar. The GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops such as tropical fruits.

Grower prices continue to be set according to sugar content of the cane. According to the Sugar Law, producers are to receive 54.5 percent of total sugar sales and sugar mills 45.5 percent. Sugar mills distribute this sales income among sugar producers. Privatization of all mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills continue to face financial restructuring and in some cases are being monitored by financial institutions that want their loans to be honored.

Consumption

Increased consumption by the candy and juice industry has pushed internal consumption numbers to 232,000 MT in 2005/06. Higher exports of these products mainly due to CAFTA-DR are contributing to the increased consumption. In 2006/07, consumption numbers are expected to continue an upward trend reaching 236,000 MT. Also, the Salvadoran Sugar Association successfully carried out a national marketing campaign to bolster local sugar consumption.

Trade

Exports for 2005/06 are expected to reach 319,000 MT compared to the USDA database number of 334,000 MT. A smaller crop and increased local sugar consumption are the main reasons behind the reduced exports. The Sugar Association expects no refined exports for 2005/06. The export forecast for 2006/07 is 356,000 MT.

The GOES continues to impose a 40 percent import tariff on all sugar. The bound rate on sugar is 70 percent ad-valorem. The GOES considers sugar politically sensitive because it offers large rural employment and for that reason the GOES provides tariff protection. CAFTA-DR has spurred regional tariff harmonization to avoid triangulations and market disruptions. However, the Central American region still has not agreed on a harmonized import tariff for sugar.

Russia continues to be the major destination for Salvadoran sugar exports. In 2005, 111,192 MT were exported to Russia. Canada is also an important export destination with a total of 70,616 MT in 2005. Export destinations for 2006 are expected to be similar to 2005. However, due to additional CAFTA-DR Tariff-Rate-Quota, exports to the U.S. are expected to increase to approximately 70,714 MT in 2006.

CAFTA-DR has also increased industrial sugar consumption in El Salvador because sugar-containing products such as candy and juices have immediate duty-free access to the U.S. market.

Export Trade Matrix
El Salvador
Centrifugal Sugar

Time Period	MY	Units:	MT
Exports for:	2005		2006
U.S.	32,754	U.S.	70,714
Others		Others	
Russia	111,192	Russia	115,000
Canada	70,616	Canada	72,000
Taiwan	4,269	Taiwan	4,500
Total for Others	186,077		191,500
Others not Listed	114,369		56,886
Grand Total	333,200		319,100

Stocks

Ending stock levels in 2005/06 decreased to 12,000 MT mainly due to a reduced crop and increased internal consumption. Contraband sugar coming from neighboring Guatemala is under control and no longer causes a disruption to the local market. The Sugar Law states that all sugar sold locally must carry a safety seal provided by CONSAA. CONSAA has taken over all assignments previously handled by the Sugar Development Commission (CDA).

Production Policy

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A to reduce blindness in the local population. Both producers and millers share this additional cost.

The GOES has not designed a specific production support or assistance program for the sugar sector, however it continues to provide tariff protection. Sugar farmers continue to benefit from a program that the GOES has provided to the agricultural sector. This program is called FINSAGRO and offers loans at a 6 percent interest rate to assist farmers to pay back arrears and have access to fresh working capital. Continued government assistance to the ailing coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs.

Under the Sugar Law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from the government, sugar producers and sugar mills.

The GOES and the sugar industry continue discussions on mixing ratios for ethanol and fuel. Pressured by higher oil prices, the GOES is currently revising a law for production of alternative fuels, including ethanol. CAFTA-DR provided El Salvador with a 6.6 million duty free ethanol quota that will grow annually until it reaches 25 million gallons in 2020. U.S., Brazilian and local investors have established a $10.0 million ethanol dehydration plant with a 60 million gallon annual capacity.

Following are some of the areas where the sugar industry continues working to improve sugar profitability:

- Produce only the amount of sugar that can be sold at profitable prices.
- Maintain or improve milling yields.
- Diversify mill incomes by focusing on alcohol/ethanol production and energy generation.
- Continue to control the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality.
- Introduce new varieties that are pest and disease resistant.

Price Policy

The wholesale price for white sugar is $ 24.25 per cwt plus a 13 percent value-added-tax. At the retail level white sugar is sold at $0.67 per Kg.

The GOES supervises sugar prices through the Ministry of Economy at the wholesale level. However, little effort is made to control price hikes at the retail level. The Sugar Association continues to publish monthly retail prices to counter indiscriminate hikes of retail prices that deeply affect the consumer.