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Colombia

Sugar

Cane Workers Strike Reducing Production and Exports

2008

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Report Highlights:

A Colombian Cane workers strike has now reached its 45th day, causing sugar production to slow to 50% of normal capacity. Ethanol production has also been gravely affected, with only 1 mill operating to produce ethanol. Of Colombia's 14 sugar mills, only 5 are currently operating. Sugar exports were revised down to 664,000 MT for 2007/08, and are expected to remain at that level in 2008/09. Total losses as a result of the strike are estimated at \$230 million. Local industry contacts expect the strike to reach a resolution within the next 10 days.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Trade Report
Bogota [CO1]
[CO]

Colombian Cane Exports Reduced

A cane producers strike, on its 45th day, has not only impacted sugar and ethanol production and supply in Colombia, but has also affected trade. Colombia is the world's fifth-largest sugar exporter and most efficient sugar producer in the world, but the strike situation has impeded exports. The shorter supply has also caused Colombia to import in past months from neighbors Ecuador and Bolivia (transshipped from Brazil). The sugar/ethanol industry is one of the most important industries in Colombia due to its contribution to social and economic development, for this reason the strike has been particularly taxing.

Currently, of Colombia's 14 total sugar plants, eight plants, which typically produce 70% of the country's sugar, have been inhibited from functioning. The other six plants are at full-capacity as they attempt to process maturing cane from the other plants. For this reason, an estimated 55% of cane processing for sugar is still taking place. However, of the five total plants that also produce ethanol, only one of these is functioning. As a result, the government blending mandate of 10% (in most Colombian cities) for ethanol has been suspended.

Losses to Date Estimated at \$230 million

An estimated loss of 4,700 tons of sugar and 700,000 liters of ethanol is occurring daily, valuing \$5.1 million per day. Sugar mills traditionally sign independent contracts with Associated Workers Cooperatives (AWCs) according to individual millers' production needs. However, 16% of the total workers are requesting to negotiate as if there were only one miller and one AWC. Asocaña, the cane processors association, believes that the standoff will end in the coming days and the plants will return to functioning normally. Post believes that when this happens, blocked inventories will be released and will immediately cover market needs. Local contacts report that the strike will not keep the industry from fulfilling its tariff rate quota of 25,000 MT.

Production, Supply and Demand Table Revised

Preliminary trade data for marketing year (MY) 2007/08 reflects a strong reduction in Colombian sugar exports to 664,000 MT from 942,000 MT the previous MY (See graph 1 with CY exports), while sugar production decreased only 109,000 tons to 2.245 MMT. Although sugar production decreased, exports decreased even more. This market situation suggests that there were higher inventories being kept through the sugar chain than what was being reported.

The strike halting sugar and ethanol production arose at the very beginning of the new marketing year (2008/09). For the marketing year 2008/09 year, due to reduced output during September and October, and based on latest sugar data, Post revised sugar production to 2.05 MMT in MY 2008/09, down 13% from the previous forecast. Although Colombia has been importing sugar from neighboring countries, the strike has also increased the need for imports, which are expected to reach 120,000 MT in MY 2008/09, an increase of 16,000 MT from MY 2007/08. Post's export forecast for MY 2008/09 is at 660,000 MT. This slightly lower level responds to the assumption that world demand of sugar and sugar-containing products will be lower due to the current economic crisis.

In summary, current information suggests that the strike will affect production in MY 2008/09 and will reduce the overall balance of the sugar sector. Colombian exports had already fallen to lower levels before the strike and are expected to remain at those levels during the 2009/09 MY.

Graph 1.

