Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Scheduled Report - public distribution

Date: 8/6/99

GAIN Report # GY8001

Guyana

Sugar

Guyana Sugar Production Sours in '98

1998

Approved by:
Rod McSherry
U.S. Embassy, Caracas
Drafted by:
Martin Patterson

Report Highlights:

Guyana's sugar production is expected to fall by 12 percent in 1998 to 248,000 mt due to the El Niño weather conditions. Production levels should return to 275,000 mt in 1999. Exports will continue to the key markets providing the highest quota prices: the United States and the European Union.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Caracas [VE1], GY

Executive Summary

Sugar has a tremendous influence on Guyana's economy. It accounts for approximately 20 percent of GDP and 40 percent of agricultural land in production. Sugar, rice, gold and bauxite are the country's four most important sources of foreign exchange. Sugar usually accounts for about 25 percent of Guyana's export earnings and the industry directly employs about 20,000 workers which accounts for as much as 15 percent of the country's work force. All of the country's sugar mills and most of its cane land belong to the government-owned Guyana Sugar Corporation (Guysuco). Guysuco is managed under contract by a British firm (Booker-Tate) with a long history of involvement in the sugar industry in the Caribbean. Guyana is not sufficiently efficient to compete on the world market, and depends on the preferential prices in the United States and European Union. More than 90 percent of raw sugar production is exported, and over 90 percent of those exports are sold under quotas to the European Union and the United States. After meeting its EU and US quotas, any additional sugar is exported to Caricom countries where prices are typically 40 percent above the world price due to the common external tariff that non-Caricom members must pay. Only after these markets are exhausted does Guyana sell onto the world market. Noticeable improvements in yields and plant efficiency have occurred since 1990 when Booker Tate was hired to manage Guysuco. However, sugar content of Guyanese cane is still among the lowest in the world, crushing facilities are in dire need of modernization, and handling and labor efficiencies are low. Unfortunately, the government is reluctant to divert funds into investment in needed improvements because it believes that other sectors of the economy require the funds more urgently.

The weather related problems caused by El Niño has placed a burden on the Guyanese economy. Sugar production during the first half of 1998 is down by 12 percent from the previous year. The eight factories in the sugar industry are expected to produce a total of about 250,000 tons of raw sugar for the year. To make matters worse, the Guyana Agricultural and General Workers Union (GAWU) and Guysuco have been having difficulties reaching agreement on a wages/salary pact for 1998. Both parties have recognized that further discussions at the bilateral level would be inconclusive and the union has taken steps to refer the dispute to the Ministry of Labor for reconciliation.

Guysuco officials expect production to be back on track in 1999 with levels equivalent to the 1997 crop. Looking even further to the year 2000, Guysuco is currently forecasting production at 300,000 mt. Booker-Tate's contract to manage Guysuco will continue until the corporation is fully restructured in 2001. Beginning in 1999, the government will introduce a semi-annual benchmark into the management contract related to reducing the unit cost of production. Additionally, the government has agreed to fix the sugar levy at $2 billion Guyanese dollars (about US$13.8 million) to make it more transparent. The overall objective of these and other schemes by the government is to improve sugar profitability through increased productivity.

Sugar Cane for Centrifugal

PSD Table						
Country:						
Commodity:	Sugar Cane Centrifugal					
Market Year Begins	January	1997	January	1998	January	1999
	Old	New	Old	New	Old	New
	(,000)	(,000)	(,000)	(,000)	(,000)	(,000)
Area Planted	44	46	44	45	0	46
Area Harvested	43	46	43	44	0	46
Production	3300	3074	3300	2600	0	3000
TOTAL SUPPLY	3300	3074	3300	2600	0	3000
Utilization for Sugar	3300	3074	3300	2600	0	3000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	3300	3074	3300	2600	0	3000

Centrifugal Sugar

PSD Table						
Country:	Guyana					
Commodity:	Sugar					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/97		01/98		01/99
Beginning Stocks	6	6	6	2	5	2
Beet Sugar Production	0	0	0	0	5	2
Cane Sugar Production	280	276	288	248	285	275
TOTAL Sugar Production	280	276	288	248	290	277
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	7	8	8	0	8	8
TOTAL Imports	7	8	8	0	8	8
TOTAL SUPPLY	293	290	302	250	303	287
Raw Exports	257	256	265	216	260	250
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	257	256	265	216	260	250
Human Dom. Consumption	30	32	32	32	32	32
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	30	32	32	32	32	32
Ending Stocks	6	2	5	2	11	5
TOTAL DISTRIBUTION	293	290	302	250	303	287

Production

Guyana has two sugar cane harvests a year. The first runs from February through May, and the second from July through December. The first harvest, usually responsible for about 40 percent of annual sugar production, is smaller because rains are less abundant during the first half of the year. It was a difficult year in 1997 for the sugar industry with production being exposed to extreme climatic conditions of wet, then dry. Overall rainfall in 1997 was only 54.7 inches, some 30 percent below normal. The effects of El Niño extended far into 1998 with even drier weather during the first six months of the year. Although Guysuco managed field and factory operations well during the drought there is no doubt that the absence of rain has had an adverse effect on production.

Cane Production

Cane production in 1996 was 3,222,294 mt taken from 45,570 hectares. Cane yields were 70.1 mt per hectare. Cane production in 1997 was 3,073,908 mt taken from 46,349 hectares. Thus, while harvested acreage increased in 1997, yields decreased to 66.3 mt per hectare due to El Niño. This weather phenomenon also reduced yields on the 1998 crop by about 12 percent. Nonetheless, Guysuco management maintains that as a result of ongoing efforts on their part to improve field practices and drainage they forecast improved yields once the crop has normalized in 1999. Drainage is especially important because the watertable in Guyana is usually high. Consequently soils can easily become saturated and damage cane root structures which require well-aerated soils. Projected cane production for 1999 should be on par with 1997 levels, but slightly higher production is forecast the following year.

Roughly 90 percent of all cane is grown on land owned or leased by Guysuco. Independent farmers, who account for the remaining cane land under cultivation, produced about nine percent of all cane in 1997 and eight percent of sugar production. Private farmers tend to plant very hardy varieties that require minimum of care and have low sugar yields. The relative share of privately produced cane is expected to be the same in 1998 and 1999. Independent farmers are paid 70 percent of the value of the sugar produced from their cane. Guysuco retains the other 30 percent to cover handling and processing costs.

Sugar Production

Raw sugar production in 1997 was 287,521 mt, about three percent more than in 1996. Increased production and higher yields result from the expanded use of chemical ripeners, improved field practices and better drainage. Guysuco has applied chemical ripeners since 1994 on an experimental basis with the goal of improving their financial position. In 1995 Guysuco used ripeners on 50 percent of the second crop, and in 1996 on 60 percent of both crops. The goal in 1997 was to apply ripeners to 75 percent of both crops, but opposition from union representatives kept Guysuco from attaining this level. Union representatives assert that chemical ripeners have adverse effects on cane yields despite the empirical evidence provided by Guysuco. Once the application rate of 75 percent is reached, Guysuco has estimated an increase of sugar production of 1,250 mt.

Guysuco's target for 1998 production is 248,000 mt of raw sugar. Production in 1999 will likely return to the more typical level of 275,000 mt. Increased sugar production will come from higher sugar yields and not from additional area. Guysuco's short term policy is to hold annual raw sugar production to between 290,000 mt and 300,000 mt. Unless costs of production can be lowered substantially, it would not be profitable to produce more sugar because returns on additional exports, which would have to be placed on the world market (outside of the United States, the European Union, and CARICOM), are negative.

Current costs of production are slightly less than $0.18 per lb. Guysuco's goal is to reduce costs of production to $0.13 per lb. in five years. Economies could be obtained by automating the loading of cane onto the punts that transport it to mills, and by automating fertilization and weeding, all of which are now done by hand. It is unlikely that cane cutting can be mechanized. Guyana's cane fields are laid out in long narrow strips bordered on each side by the canals that are used for drainage and transportation. Traditional cutting machinery works best in wide fields which provide the cumbersome harvesters ample space in which to maneuver and turn. Furthermore, Guyana's soils, which tend to be high in moisture and clay content, are not suitable for heavy equipment.

Raw sugar production could increase by 5 to 10 percent by improving the efficiency of Guysuco's aging sugar mills. There are eight sugar mills are currently in operation in Guyana. Guysuco is currently working to renovate two of these mills. The newest mill of the eight is more than 30 years old.

Consumption

Domestic consumption remains flat at around 32,000 mt a year. Most of the consumption comes in the form of domestically produced brown (raw) sugar and the remaining 7,000 mt (raw equivalent) is imported refined sugar to meet the needs of the confectionary and soft drink industry. Guysuco produces mostly raw sugar, a sugar that is light brown in color, and referred to locally as "demerara crystal." This is the type of sugar that Guyana exports and also the type that is most consumed within Guyana. It also produces some semi-refined sugar, referred to as "plantation white," but only for domestic consumption.

Trade

Sugar and rice are Guyana's most significant agricultural exports. Both of them are exported mainly to markets where they receive preferential prices and are insulated from competition from more efficient producers. In both cases, domestic costs of production still exceed world prices, and, consequently, both industries would go bankrupt if they were required to compete on the open world market.

Guyana's protocol quota to the EU is 165,000 mt of white sugar per year or its raw equivalent (approximately 170,000 mt). Its annual quota with the United States is about 21,000 mt. In 1995 the European Union established the special preferential sugar (SPS) quota mostly to meet Portugal's sugar needs after it acceded to the EU. This quota, which is separate from, and in addition to, the EU protocol quota, was given to the former EU colonies in Africa, the Caribbean and the Pacific (the ACP countries). The SPS quota went into effect in July 1995 and will continue through June 2001 when the EU is expected to renew it. Guyana's 1998 SPS quota is a projected 41,056 mt. The price for SPS sugar is set at 85 percent of the price for EU protocol sugar. Calendar year exports vary from quota levels because the EU quota year is on a July to June basis while the U.S. quota year runs from October through September.

Guyana has not sold onto the world market for the past few years. Canada is the usual world market buyer because it tends to offer the most favorable world market prices for Guyanese sugar.

Exports of Raw Sugar

The EU has not increased protocol prices since 1986. The current average price paid for EU protocol sugar is approximately $640 per mt. The SPS price is $540 per mt. This compares with $440 per mt under the U.S. quota, $340 per mt for sugar exported to fellow Caricom nations and $240 for world market sugar. Prices in Caricom countries tend to be about $100 above world market prices because the common external tariff for non-Caricom sugar is 40 percent.

It costs about $394 to produce a metric ton of raw sugar in Guyana under normal growing conditions. It is obvious from comparing prices with costs that Guyana's sugar could not make money if it were not for access to EU and U.S. quotas. The European Union has not increased its protocol sugar prices since 1986, and it is expected to lower both protocol and SPS prices by 10 to 15 percent after 2001.

Looking into the future, Guysuco's five year strategy is to maximize production at 430,000 mt, export as much as possible to the European Union and the United States, export 30,000 to 35,000 mt to Caricom countries, and export the remaining 20,000 mt to non-preferential markets. Improved yields, increased labor and handling efficiency, and modernization of crushing plants are required if Guyana's sugar industry is to survive in the long-run. As was noted earlier, Guysuco's five year goal is to reduce the cost of production to $0.13/lb ($287/MT), but some observers maintain that these efficiencies will be achieved only if the industry is privatized because the government is unlikely to pay for needed improvements.

Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:			
Exports for	1997		1998
U.S.	16,994	U.S.	17,494
Others		Others	
EU (Protocol)	168,656	EU (Protocol)	161,202
EU (SPS)	35,560	EU (SPS)	41,056
Caricom	35,000	Caricom	19,000
Total for Others	239,216		221,258
Others not listed			
Grand Total	256,210		238,752

Stocks

Only minimal inventories of sugar are maintained.

Policy

The company to which all Guyana's sugar mills, and 90 percent of all cane land belongs, is government-owned and managed under contract by a foreign firm. The current contract agreement took effect in August 1995 for one year with provisions for automatic renewal for a second and third year. Booker-Tate's contract to manage Guysuco has now been renewed until the corporation is fully restructured in 2001. Beginning in 1999, the government will introduce a semi-annual benchmark into the management contract related to reducing the unit cost of production. If Guysuco's performance does not meet each benchmark, then the contractor will incur penalties. Additionally, the government has agreed to revise the sugar levy to make it more transparent. In the past, the government has collected a sugar export levy equivalent to 70 percent of the difference between the EU protocol price and 115 percent of the world market price. Now the amount due is fixed at $2 billion Guyanese dollars (about US$13.8 million). Guysuco will lose their current reduced tax rate and soon be subject to corporate taxation at the normal rate of 45 percent. Finally, beginning this year, Guysuco's preferential import regime came to an end and inputs are imported under the same regime of duties that other companies must pay. The overall objective of these and other schemes by the government is to improve sugar productivity and the industry's efficiency. However, the lack of serious investment in needed improvements will likely lead to a slow but steady decline of the industry despite the best efforts of Guysuco's R&D division and Booker-Tate's management team.

Market Opportunities

There are three importers of sugar in Guyana, Guysuco and Banks Ltd and Demerara Distillers Ltd (DDL). Banks and DDL are the country's major manufacturers of soft drinks. Banks and DDL together import about 3,500 mt of refined sugar (raw equivalent) each year. Guysuco imports another 3,500 mt (raw equivalent) which it sells to smaller industrial users whose needs are not sufficient to warrant importing independently. Imports are purchased at the world price and come mainly from Europe as back-haul cargo.