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## Colombia

## Sugar

## Annual

## 2002

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### Report Highlights:

Colombia sugar production will be 2.3 million tons in 2001/02 and will remain unchanged next year. Sugar use fell nine percent to 1.295 million tons in 2000/01, but will increase to 1.315 million tons next year. Colombian sugar exports decreased by 16 percent in 2001 to 905,000 tons from 1,078,000 tons in year 2000.

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Annual Report  
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## Executive Summary

Further expansion of Colombian sugarcane acreage for centrifugal sugar is not likely, since the area available for this crop is limited to about 200,000 hectares. Currently, Colombia has 192,000 hectares planted to sugarcane for centrifugal sugar. Sugar production, at 2.3 million tons in 2001/02, is projected to remain unchanged next year and only grow one to two percent annually in the next few years. Because of environmental concerns, the sugar industry is trying to reduce levels of foliage burning to a minimum by the year 2005. Although sugar growers and manufacturers are very interested in producing organic sugar for the foreign market, because of increasing interest shown in the product in import markets, the acreage is still not significant. The outlook for non-centrifugal sugar (panela) output is for modest reductions in the next few years, as domestic consumer demand shifts to refined sugar.

Sugar use fell nine percent to 1.295 million tons in 2000/01, due to the slow pace of the economic recovery in Colombia. However, the economy seems to be improving modestly, which should result in increased sugar consumption to 1.315 million tons next year. Although a law has been passed mandating the use of alcohol as an additive in gasoline, domestic sugar consumption will not be affected significantly in the short term, because implementation is expected to take years.

Colombia exports above 40 percent of its sugar output. According to official trade data, Colombian sugar exports decreased by 16 percent in 2001 to 905,000 tons from 1,078,000 tons in year 2000. Nearly two-fifths of exports go to Venezuela, the largest buyer. Other purchasers of the Colombian sugar are Ecuador and Peru, both members of the Andean Community. In total, the Andean Community takes two-third of the Colombian exports. Over the past 15 years, Colombia has been shifting from exporting raw sugar to refined products, in an attempt to sell higher value-added products. Currently, 30 percent of sugar exports consist of refined sugar. About three percent of the sugar exports enter the United States under the sugar import quota.

## Production

### Sugarcane for Centrifugal Sugar

Colombia's planted sugarcane area is projected to increase by only 0.5 percent in the 2001/02 (September-August) reaching 192,000 hectares. It is expected to remain in the same level in 2002/2003 crop year. A new Price Stabilization Fund was implemented in January of 2001, which contains a guaranteed price level, which has a associated mechanism for absorbing international price fluctuations. Since the guaranteed price is near the world price level, there is less pressure on domestic refiners to export sugar instead of selling in the domestic market. Because of the guaranteed price, growers are maintaining planted area instead of switching some production to corn or other crops. Conversely, increased plantings are not foreseen, since the industry feels that the weak local demand will not absorb further production, as least in the short term. Sugarcane, however, continues to be one of the most profitable crop alternatives in the Cauca valley, which is the main Colombian sugar producing region. Harvested sugarcane area in

2001/02 is estimated at 97 percent of total planted area, compared to about 70 percent at the end of the 1980s. This remarkable improvement is attributed to the continued trend to replace older planting with newer, shorter-term varieties and better farming practices. A decade ago, Colombia's sugarcane averaged more than 15 months between cuttings, but currently planted varieties average only 12 months. Newer varieties are cut for the first time one year after planting and then are harvested every year for a total of five ratoons. Since some of the older varieties now being cultivated have a longer vegetative period, the average waiting period for a ratoon at present is 13.5 months.

Industry observers believe that total planted sugarcane area is not likely to exceed 200,000 hectares during this decade. Expansion of sugarcane area beyond this level would require taking the crop into new zones located far from current production areas. It would not generate economies of scale or gains in productivity that would justify the investment necessary. In addition, potential new production areas suffer from underdeveloped infrastructure and are threatened by guerrilla groups and other criminal elements. The industry has been successful in improving field and factory yields through continuous investment in research and improvements throughout the production and refining processes. It is expected that, if modest increases in planted area are attained, Colombia's sugar production should increase from 2.23 to 2.70 million tons over the next 5 to 6 years.

Land limitations and the security threat posed by insurgent groups active in the countryside have prodded Colombia's sugar industry to expand into neighboring countries. In the early 1990s, a group of Colombian sugar mills purchased a large Venezuelan mill near Colombia's northeastern border. Recently new investment from Colombian sugar mills were made in Peru, as well. Sugarcane from the adjacent growing zones within Colombia was previously utilized to produce non-centrifugal sugar but now most of it is being exported to this Venezuelan mill for processing into centrifugal sugar.

The sugar industry has embarked on a campaign to eliminate the practice of burning. The industry is attempting to reach minimum levels of burning by the year 2005. Industry is doing this by planting cane that drops foliage before harvesting, investing in harvesting machinery, and cutting cane while it is still green. However, the use of mechanical harvesting results in less employment, and green cane cutting reduces the hand-cutting rate by two-thirds. In the past four years, the sugarcane industry has eliminated burning in 60,000 hectares or one-third of current sugar cane area. However, the industry believes that further gains will be more difficult in the short term, since they will be dependent upon genetic improvements of cane varieties to create varieties that are productive in the region but have less foliage, allowing harvesting without burning.

## **Centrifugal Sugar**

Sugar production is projected to show a three percent increase to 2.3 million tons in 2001/02, up from 2.22 million tons in 2000/2001 year. Sugarcane production has benefitted from better weather patterns, timely rainfall, along with technical improvements at the sugar mill. Assuming that normal weather prevails, Colombia's sugar production in 2002/03 is forecast to remain almost unchanged at 2.31 million tons.

Sugar production over the next 3 to 5 years is projected to expand at an average annual rate of no more than one or two percent. It should be noted that Colombia's sugar industry is highly efficient. It enjoys the world's highest sugar yield per hectare of sugarcane.

There is increasing interest among the sugar growers in producing organic sugar, which is attractive because of the higher prices it demands in the world market. In fact, a couple mills and some sugarcane fields have already been certified by international organizations. Exports of organic sugar have been made already and external markets show a rising demand. However, the high costs involved in producing and refining organic sugar still limit demand for the product.

## **Non-centrifugal Sugar**

Non-centrifugal sugar (panela) output in 2001/02 is projected at 1.26 million tons, slightly lower than the previous year. A growth of less than one percent in panela production level is forecast for 2002/03. Panela output is supported by exports to Hispanic markets, but hurt by the continuing shift toward centrifugal sugar domestically.

# **Consumption**

## **General**

Human consumption of sugar in Colombia during 2000/01 dropped nine percent to 1.29 million tons, as a result of the still-weak economic recovery. Although the economy recovered somewhat in 2001, the unemployment rate remained high hurting consumption rates. The poor performance of the soft drink industry and reduced demand for processed foods that contain sugar also contributed to lower consumption. The remaining consumption is almost all direct household consumption. About three percent of total sugar utilization was accounted for by the mixed feed industry.

Although the economy continues to recover slowly, projections for 2001/02 are for human sugar consumption to recover by 0.5 percent. In addition, no significant increases are expected in the next two years. The volume of sugar utilized in the manufacture of mixed feed is expected to grow to 20,000 tons in 2001/02, up from 7,000 ton in 2000/01. Sugar as an input for prepared animal feeds depends on price fluctuations in substitute products and is expected to decline to around 10,000 tons in 2002/2003, because of reductions in variable duties on others inputs.

## **Consumption Trends**

Overall, growth in sugar consumption has been driven during the past decade by industrial users. At present the food processing sector accounts for 40 percent of total sugar usage, compared to only 32 percent in the early 1990s. Nearly two-thirds of total industrial usage goes into the production of sweetened soft drinks, since the local soft drink bottling industry does not use high fructose corn syrup. The sugar contained in products exported during calendar year 2001 rose by 17 percent. This amounted to 120,000 tons, 18,000 tons above last year. In the near future,

value-added product exports are expected to play a much larger role in total sugar usage domestically.

## **Prices**

The average retail price for sugar in the first half of April 2002 was 1,911 pesos per kilogram (\$0.85 per pound), a two percent decrease over a year ago. This downward trend reflects a weak demand and a strong competition among the retailers.

The average retail price for panela (non-centrifugal sugar) stood at 1,135 pesos per kilogram (\$0.25 per pound), nine percent higher than a year ago. In the 1980s, panela and sugar were at about the same price, but now the price of panela is 31 percent lower than that for sugar.

## **Trade**

### **Sugarcane Exports**

Colombian exports of sugarcane in 2001 reached 26,250 tons. All sugarcane exports originate in growing areas located near the Venezuelan border and are directed to Venezuela. Part of Colombia's sugarcane produced in this area is used locally for panela (non-centrifugal sugar) and the balance is exported to a Colombian-owned mill in Venezuela. No other sugar mills exist in the area. The outlook for 2001/02 is for sugarcane exports to increase by one percent.

### **Sugar Exports**

Colombia exports above 40 percent of its sugar output. According to official trade data, Colombian sugar exports decreased by 16 percent in 2001 to 905,000 tons from 1,078,000 tons in year 2000. This was due mainly to a reduction in production that reduced sugar supply for foreign market. Refiners usually sell as much as possible into the domestic market, then pursue sales in the export markets. The tendency to supply the local market first is explained because the utilization of Price Stabilization Fund Mechanism, that acts as counter balancer between external and local prices. The recovery in the world raw sugar prices started in the second half of 2000 year remained in 2001, averaging \$0.084 per pound in May 2001 from \$0.081 in 2000. These higher international higher prices helped increase profits in the industry, even though exports did not increase. Depending on world prices and exports of value-added sugar products, sugar exports in 2001/02 and 2002/03 are estimated to grow by three percent and one percent, respectively.

Venezuela has been the most important customer for Colombia's sugar, normally accounting for about 42 percent of all export shipments. Although, the Venezuelan government has established an import license requirement for Colombian sugar, Colombian's exports to Venezuela rose 178 percent in year 2001, after a 55 percent decline a year before. Also, Ecuador restricted purchases from Colombia, which resulted in 40 percent reduction in Colombia's sugar exports to that

country to 16,000 tons, while imports reached 33,000 tons from that country in the same year.

Other key destinations in the Andean region are Peru and Chile, which take about 17 percent of all export sales. Colombia's sugar is granted duty-free entry into Andean Community countries (Venezuela, Ecuador, Peru, and Bolivia). The United States takes about seven percent of Colombia's sugar exports. About one-third of all Colombian sugar shipments to the United States falls under the U.S. sugar quota, with the remainder going to processing and re-exportation.

Traditionally, Colombia's sugar exports have consisted of raw sugar. The industry began to shift to sales of refined sugar in the mid-1980s. Exports of refined sugar in 2000/01 amounted to 284,000 tons (raw equivalent), accounting for 30 percent of total sugar shipments.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Colombia exported 5,429 tons of panela in 2001, 15 percent higher than a year earlier. The main buyer for Colombia's panela was Venezuela, which took above two-thirds of all panela exports. United States represented the second largest market buying 27 percent of the 2001 total exports. Most of this product is consumed by U.S. Hispanic consumers.

## **U.S. Sugar Quota**

Colombia exported 68,000 tons of raw sugar to the United States in 2000/01. The U.S. sugar import quota for Colombia during the October 2001-September 2002 period is fixed at 25,273 tons. To date, the U.S. sugar import quota assigned to Colombia is the same volume assigned the previous year.

The U.S. actual sugar import quota for Colombia represents only three percent of Colombia's total sugar export volume but the local industry views this volume to be significant, given the profitability of these sales. Sugar exports which do not fall within the import quota are made at world prices.

The Ministry of Foreign Trade is in charge of issuing the U.S. sugar quota certificates of eligibility to the local industry. The formula for the issuance of the certificates is based upon the following guidelines:

- About 80 percent of the total quota is allocated to the large sugar mills; each sugar mill is assigned by ASOCAÑA (the largest Colombian sugar growers association) a percentage of this volume based upon its production during the previous year. The sugar mills make their export sales and shipments through CIAMSA, an export company representing all of the sugar mills.
- Some 18 percent of the total quota is granted to small exporters of panela (non-centrifugal sugar) who can demonstrate previous export experience. The actual volume assigned to each panela exporter reflects his previous export sales. If panela exporters fail to meet their assigned sales volumes within a six month period, any excess is re-



distributed to the large sugar mills.

- The remaining two percent of the total quota volume is granted to new panela exporters.

## **Stocks**

The carry-in sugar stocks for 2000/01 reached 40,000 tons, 30 percent lower than a year before. This level reflects that the reduction in production was even greater than the decline in consumption. Also, it reflects a gain in production's efficiency that gives the industry the opportunity to lower stocks without compromising the adequacy of supply. This carry-over level corresponds around three weeks' domestic consumption. These stocks are considered adequate, since Colombia enjoys the unique ability to produce sugar year-round.

## **Policy**

### **Production Policy**

In addition to the guaranteed price, the GOC is providing assistance designed to raise incomes for less affluent farmers who produce sugarcane for panela,. These efforts concentrate on expanding the availability of credit, developing more productive and disease-resistant varieties of sugarcane for panela, and by providing extension services aimed at improving cultivation practices. Although some improvement in farm income for panela producers has been achieved, the GOC's efforts to improve sugarcane yields from those varieties planted by panela producers have achieved very little success.

### **Export Policy/Subsidies**

Colombia is a member of the ten-nation International Sugar Agreement (ISA). Colombia has been unsuccessful in its efforts to establish country export quotas because of lack of support from other ISA members.

Since the late 1960s, Colombian exporters of centrifugal sugar and panela have received export subsidies in the form of income tax rebate certificates (CERTS). These CERTS have a value equal to a percentage of the FOB export value. Initially the percentage for sugar was fixed at 15 percent. Since 1992, the CERT has been set at 2.5 percent of the FOB value for centrifugal sugar and starting in January 2001 a 2.5 percent for panela down from four percent. These percentages are currently applied. The GOC does not provide this export subsidy on sales to the United States because of the higher prices obtained under the U.S. import quota system. The local industry has lobbied unsuccessfully to obtain this export subsidy on sugar sales to the United States outside of the import quota system, based on the argument that these sales are made at prevailing world prices.



## Price Band

Under the terms of the Andean Community, sugar imports from other Community countries are allowed duty-free entry into the Colombian market. Colombia's government, through the application of the Andean Community's price band, discourages sugar imports from countries outside the Andean Community. The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent. The variable surcharge calculation for sugar is based upon adjusted floor, ceiling, and reference price levels determined by the Andean Board of Directors. Under this system, import duties are levied on calculated reference prices and not on actual invoice prices. The Andean Community revises annual ceiling and floor prices in April. Reference prices are adjusted by the Andean Community every two weeks. If the applicable reference price falls within the floor and ceiling price band, the import duty is calculated using the basic tariff rate applied to the reference price. When the reference price falls below the floor price a variable levy or surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty based upon the difference between the reference and the ceiling price. For the first half of April 2002, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar is equivalent to 71 percent of the reference price or \$114 per ton while the total effective duty for refined sugar is 32 percent of the reference price or \$85 per ton.

## Andean Community and Mercosur Merger

The Andean Community (Colombia, Peru, Ecuador, Bolivia, and Venezuela) has been negotiating with Mercosur (Argentina, Brazil, Uruguay, and Paraguay) to merge these two trade blocks since the mid-1990s. Negotiations have proven to be problematic and the Andean Community, although continuing its interest in a merger, decided to negotiate agreements with the individual Mercosur countries.

On August 16, 1999, the Community signed an agreement with **Brazil** effective until August 2001, when it was extended through March 31, 2002. The Community expected that, by that time, the complete Mercosur block will be ready to merge. However, an agreement is unlikely in the short term given the internal economic issues in Brazil and Argentina. Under pressure from the Colombian sugar sector, the Colombian Government excluded sugar from the Mercosur negotiations. The Colombian sugar industry argues that Mercosur sugar, especially from Brazil, is heavily subsidized.

## Alcohol to be Used as Fuel

In September 2001, the Colombian Government issued law 693 mandatory the use of alcohol in gasoline sold in cities with populations larger than 500,000 inhabitants. The time-frame for the application of the law was 5 years, with a progressive implementation. The technical regulations on production, storage, distribution and mixing are currently being written. However, the key issue for refiners is the higher cost of producing alcohol than sugar. According to refiners, the production cost for alcohol is three times that of sugar. The decision on investing in expensive refining equipment will depend on price guarantees that would guarantee and adequate return on

investments.

The Sugar Grower Association (ASOCANA) estimates that nearly all the current exports would be directed to alcohol production, in order to meet the initial mix requirement of the law.

### **Sugar Price Stabilization Fund**

The Ministry of Agriculture officially implemented the Sugar Price Stabilization Fund on April 1, 2000, which is used to compensate for lower export prices. The fund began functioning in January 2001, and its resources have been directed to growers and exporters to help stabilize their incomes. Since exporters received higher prices they make contributions to offset the lower prices received for growers in the local markets. To date, according to growers, this mechanism has played an key roll in reducing the volatility between international and local prices. Because the guarantee price is close to world price levels, the mechanism discourages sugar refiners from exporting so much sugar that it would create shortages in domestic market.

## TABLES

### Colombia: Centrifugal Sugar, PS&D, 2000/01 - 2002/03 (1,000 tons)

PSD Table						
Country	Colombia					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Beginning Stocks	60	50	55	40	50	42
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2250	2225	2265	2300	0	2305
TOTAL Sugar Production	2250	2225	2265	2300	0	2305
Raw Imports	1	1	1	1	0	1
Refined Imp.(Raw Val)	9	25	9	7	0	0
TOTAL Imports	10	25	10	7	0	1
TOTAL SUPPLY	2320	2300	2330	2347	50	2348
Raw Exports	580	680	585	695	0	700
Refined Exp.(Raw Val)	340	285	345	295	0	300
TOTAL EXPORTS	920	965	930	990	0	1000
Human Dom. Consumption	1298	1288	1302	1295	0	1300
Feed Dom. Consumption	47	7	48	20	0	10
TOTAL Dom. Consumption	1345	1295	1350	1315	0	1310
Ending Stocks	55	40	50	42	0	38
TOTAL DISTRIBUTION	2320	2300	2330	2347	0	2348

Source: Asocaña ( Colombian Sugar Growers Association)

**Colombia: Sugarcane for Centrifugal Sugar, 2000/01 - 2002/03**  
**(1,000 hectares and 1,000 tons)**

PSD Table						
Country	Colombia					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Area Planted	191	191	192	192	0	192
Area Harvested	179	179	182	186	0	185
Production	18700	18700	19100	19500	0	19350
TOTAL SUPPLY	18700	18700	19100	19500	0	19350
Utilization for Sugar	18700	18700	19100	19500	0	19350
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	18700	18700	19100	19500	0	19350

Source: Asocaña ( Colombian Sugar Growers Association)

**Colombia: Exports of Centrifugal Sugar, 2001 (1,000 tons)**

Export Trade Matrix			
Country	Colombia		
Commodity	Centrifugal Sugar		
Time period	Jan-dec	Units:	1,000 MT
Exports for:	2001		2002
U.S.	68	U.S.	
Others		Others	
Venezuela	376		
Russia	128		
Peru	115		
Kenya	14		
Haiti	65		
Chile	42		
Jamaica	26		
Panama	21		
Ecuador	16		
Kenya	14		
Total for Others	817		0
Others not Listed	20		
Grand Total	905		0

Source: DANE (National Statistics Bureau)

**Colombia: Retail Prices for Refined Sugar, 2001 - 02 (Pesos per kilogram)**

Prices Table			
Country	Colombia		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	Kilogram
Year	2001	2002	% Change
Jan	1945	1612	-17.12%
Feb	2011	1912	-4.92%
Mar	1925	1998	3.79%
Apr	1935	2125	9.82%
May	1964		-100.00%
Jun	1979		-100.00%
Jul	2083		-100.00%
Aug	2050		-100.00%
Sep	2088		-100.00%
Oct	1960		-100.00%
Nov	1722		-100.00%
Dec	1828		-100.00%
Exchange Rate	2255	Local currency/US \$	

Source: Post Survey

**Colombia: Non-centrifugal Sugar Area and Cane Production**  
**2000/01 - 2002/03 (1,000 Hectares and 1,000 Tons)**

PSD Table						
Country	Colombia					
Commodity	Sugar Cane, Non-Centrifugal				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2001		01/2001
Area Planted	322	322	320	320	0	320
Area Harvested	209	209	209	211	0	212
Production	10450	10450	10400	10550	0	10600
TOTAL SUPPLY	10450	10450	10400	10550	0	10600
Utilization for Sugar	10450	10450	10400	10550	0	10600
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	10450	10450	10400	10550	0	10600

Source: Ministry of Agriculture



**Colombia: Non-centrifugal Sugar, PS&D, 2000/01 - 2002/03 (1,000 tons)**

PSD Table						
Country	Colombia					
Commodity	Non-centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2001		01/2001
Production	1250	1250	1245	1262	0	1267

Source: Ministry of Agriculture