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Sugar

Sugar - Annual

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Report Highlights:

Colombian sugar exports in 1998/99 are estimated at 860,000 tons (raw equivalent), down from nearly a million tons a year earlier. The lower export volume this marketing season results largely from a marked drawdown in carryin stock levels. Insecurity in Colombia's countryside is restricting production and exports and encourages continued investment by the sector in the sugar industries of neighboring countries.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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Executive Summary

Colombia's sugar industry took advantage of strong international sugar prices to expand its sugar exports to nearly 1 million tons (raw equivalent) in 1997/98. This resulted in a marked drawdown in carryover stock levels into the current 1998/99 season. With sugar output forecast to increase only a modest 1 percent, export volume in 1998/99 is projected to decline to 860,000 tons (raw equivalent). For the period October 1998-September 1999, the U.S. tariff rate quota for Colombian sugar is 25,999 tons. As of late March 1999, approximately 40 percent of this volume already has been exported. Largely because of the security threat posed by insurgent groups active in the countryside, Colombia's sugar industry is expressing increasing interest in expanding into neighboring countries. Three Colombian mills jointly purchased a large mill in Peru (Laredo) in January 1999. Additional investments in Peruvian mills are anticipated.

Production

A. Sugarcane for Centrifugal Sugar: Growers increased planted sugarcane area in 1998/99 by 1 percent to 190,000 hectares. Another 1 percent increase is forecast for 1999/2000. With world sugar prices falling in late 1998, growers lost much of their enthusiasm for a more aggressive planting program. Sugarcane, however, continues to be one of the most profitable crop alternatives in the Cauca valley which is Colombia's dominant producing region. Harvested sugarcane area in 1998/99 is estimated at 97 percent of total planted area compared to about 70 percent at the end of the 1980's. This improvement is attributed to the continued trend to replace older plantings with newer, shorter-term varieties. Colombia's sugarcane a decade ago averaged more than 15 months between cuttings, but current varieties average only 12 months. Newer varieties are cut for the first time one year after planting and 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 months.

Industry observers believe that total planted sugarcane area is not likely to exceed 200,000 hectares during the next decade. Expansion of sugarcane area beyond this level would require taking the crop into new producing zones that suffer from an underdeveloped infrastructure and are threatened by guerrilla groups and other criminal elements. Assuming that the industry is successful in improving field and factory yield levels through the continuation of its efforts to cultivate improved varieties, and that modest increases in planted area will also be attained, Colombia's sugar production is projected to increase from 2.2 to 2.3 million tons over the next 5-6 years.

Largely because of the security threat posed by insurgent groups active in the countryside, Colombia's sugar industry is expressing increasing interest in expanding into neighboring countries. In the early 1990's, a group of Colombian sugar mills purchased a large Venezuelan mill near Colombia's northern border. Sugarcane from the adjacent growing zones within Colombia was previously utilized to produce non-centrifugal sugar. It is now being exported to this Venezuelan mill for processing into centrifugal sugar.

Three Colombian mills (Incauca, La Cabana and Manuelita) purchased a large mill in Peru (Laredo)

in January 1999. Additional investments in Peruvian mills are being considered. A factor slowing the pace of investment in Peru is the extent of debt being carried by Peruvian mills. Reportedly, much of this debt represents years of non-payment of taxes to the GOP. For this reason, Colombian mills are discounting their valuations for Peruvian mills. Nevertheless, the local industry seems to be looking outside of Colombia to accomplish their expansion goals.

The industry consists of 14 sugar mills. The mills own approximately 35 percent of the land planted to sugarcane, with the remainder of this crop cultivated by growers that contract with mills. Most contracts relate cane prices to the content of sucrose. In a limited number of cases, growers receive a portion of their payment in the form of sugar.

B. Centrifugal Sugar: Although area harvested will decline slightly, sugar production in 1998/1999 is expected to show a modest increase to 2.18 million tons. Sugarcane production benefitted from the return of normal weather conditions after the El Nino phenomenon a year earlier. Higher rainfall this year is being reflected in improved yields of cane per harvested hectare. The average industrial yield for sugar attained in Colombia's mills, however, is expected to remain unchanged at 120 kilograms of sugar per ton of sugarcane processed. The slight increase in sugar output anticipated this year, therefore, is based solely upon an increased volume of sugarcane processed. Assuming normal weather prevails, Colombia's sugar production in 1999/2000 is forecast to increase 2 percent to 2.22 million tons.

Sugar production over the next 3 - 5 years is projected to expand at an average annual rate of no more than 1 - 2 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. Colombia's industry is projected to have a sugar yield in 1998/99 of 12 tons of sugar per harvested hectare.

C. Non-Centrifugal Sugar: Non-centrifugal sugar (panela) output in 1998/99 is estimated at 1.3 million tons, virtually the same as in the previous year. A similar panela production level is forecast for 1999/2000. Panela output is projected to decline modestly over the next 3-5 years, reflecting a shift in domestic consumption to centrifugal sugar.

D. Production Policy: The GOC considers that the sugar sector is economically vibrant and, therefore, sees little need to provide production incentives. For the less affluent farmers who produce sugarcane for panela, however, the GOC is providing assistance designed to raise their incomes. These efforts concentrate on expanding the availability of credit, developing more productive and disease-resistant varieties of sugarcane (utilized 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.

Consumption

Human consumption of sugar in Colombia during 1997/98 increased 2 percent over a year earlier, in line with the growth in the Colombian population. Colombia's economy grew only 0.2 percent in 1998. GOC statistics indicate that economic activity actually declined in the last quarter of 1998

and although data are not yet available for the first quarter of 1999, results likely were again negative. A modest economic recovery is anticipated this year, but economic growth for entire 1999 is not expected to exceed 1.0 - 1.5 percent. The poor performance of the economy is reflected in only modest increases for sugar utilization in the manufacture of processed foods and soft drinks. These two categories account for approximately one-third of Colombia's total sugar consumption. Nearly all of the balance goes for direct household consumption. Less than 5 percent of total sugar utilization is accounted for by the mixed feed industry.

Overall, growth in sugar consumption has been driven during the past decade by industrial users. At present the food processing sector now accounts for 37 percent of total sugar usage compared to only 32 percent in the early 1990's. Nearly two-thirds of total industrial usage is for the production of sweetened soft drinks. The local soft drink bottling industry does not use high fructose corn syrup.

Annual per capita consumption of centrifugal sugar is estimated at 31 kilograms. Additionally, the average Colombian consumes 30 kilograms of non-centrifugal sugar (panela). Low-quality panela is consumed largely by Colombia's lower income groups. Total annual per capita sugar consumption is equivalent to 61 kilograms. In comparison, annual per capita sugar consumption in the United States is estimated at 69 kilograms.

The volume of sugar utilized in the manufacture of mixed feed is expected to decline from an estimated 55,000 tons in 1997/98 to 45,000 in 1998/99. With a reduced sugar availability resulting largely from a drawdown in stock levels due to increased export volumes in 1997/98 domestic sugar prices are likely to increase markedly this season. This will encourage feed manufacturers to cut back on their purchases. Sugar as an input into prepared animal feeds is expected to remain at current levels during the next 2-3 years.

The average retail price for sugar in March 1999 was 1,000 pesos per kilo (\$0.29 per lb.), up 12 percent in peso terms over a year ago. The general rate of inflation over this same period was 17 percent. This trend in sugar prices is not expected to continue. The rise in sugar prices over the remainder of the current marketing season is likely to exceed the general rate of inflation due in large part to a lower total sugar availability.

Trade

A. Sugarcane Exports: Colombian exports of sugarcane in 1998/99 are estimated at 28,000 tons (\$700,000), up 12 percent over 1997/98. All sugarcane exports are directed to Venezuela and originate in growing areas located near the Venezuelan border. 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 1999/2000 is for sugarcane exports to increase 5 percent.

B. Sugar Exports: Colombia exports approximately 40 percent of its sugar output. According to official trade data recently made available, Colombian sugar exports in 1997/98 reached nearly 1.0 million tons, up 22 percent over a year earlier. The increased export sales volume is attributed to the prevailing high world price levels. During most of the 1997/98 marketing season, the average

world price for raw sugar was \$0.13 per pound compared to \$0.09 in 1996/97.

World sugar prices have weakened markedly in marketing year 1998/99 due in part to the Asian crisis and the devaluation of the Brazilian real. The lower export prices combined with a reduction in exportable supplies based upon a smaller carryin stock level compared to a year earlier will limit sugar exports to 860,000 tons in 1998/99. Sugar exports in 1999/2000 are forecast at the same level as in 1998/99. Significant growth in Colombia's future sugar export volumes is not anticipated. This largely will result from rising internal demand which will closely follow the modest expansion in production.

Venezuela is the most important customer for Colombia's sugar, normally accounting for about 30 percent of all export shipments. Other key destinations in the Andean region are Peru and Ecuador, which take about 15 percent each of all export sales. Usually, Colombia's sugar is granted duty-free entry into other Andean Community countries (Venezuela, Ecuador, Peru, and Bolivia). Shipment levels to these countries vary year to year reflecting changes in their sugar production. The United States takes approximately 15 percent of Colombia's sugar exports. Between 20 and 25 percent of all sugar shipments to the United States falls under the U.S. sugar quota, with the remainder going for processing and re-exportation.

Traditionally, Colombia's sugar exports have largely consisted of raw sugar. The industry began to shift to sales of refined sugar in the mid-1980's. Exports of refined sugar in 1998/99 are estimated at 410,000 tons (raw equivalent), accounting for 50 percent of total sugar shipments. The industry continues to stress refined sugar exports in order to maximize export revenues.

In order to protect its domestic sugar industry, Ecuador established an import surcharge of 8 percent on all sugar imports effective February 19, 1999 (decree 609 of the Ecuadorean MinAg). This import tax affects sugar imported from all suppliers, including other Andean Community countries. In practice, this affects only Colombia, since other Andean countries do not enjoy exportable supplies.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Panela exports in 1998/99 are estimated at 1,000 tons, up 11 percent over a year earlier. The main buyer for Colombia's panela is the United States which takes 60 percent of all panela exports. Most of this product is consumed by U.S. citizens with a Latin heritage and therefore are accustomed to this product. Venezuela takes approximately 25 percent of Colombia's panela exports and another 10 percent is destined for Italy.

C. U.S. Sugar Quota: Colombian exports of sugar to the United States in 1998/99 are estimated at 100,000 tons. The U.S. sugar import quota for Colombia during the October 1998-September 1999 period is fixed at 25,999 tons. To date, the U.S. sugar import quota assigned to Colombia is 29 percent below the volume assigned the previous year. Reportedly, 40 percent of this authorized quota already has been exported.

The U.S. sugar import quota for Colombia represents 3 percent of Colombia's total sugar export volume in marketing year 1998/99. Although this is a relatively small share of Colombia's total exports, the local industry views the U.S. quota volume as a significant issue given the profitability of these sales. The international price of raw sugar averaged \$0.13 per pound in 1998 compared to

\$0.22 per pound in the U.S. market. Sugar sales to the United States which do not fall within the import quota are made at international prices.

INCOMEX of the Ministry of Foreign Trade is the GOC agency in charge of issuing the U.S. sugar certificates of eligibility to the local trade. INCOMEX's formula for the issuance of the certificates is based upon the following guidelines. a) Approximately 80 percent of the total quota is allocated to the large sugar mills. Each sugar mill is assigned by ASOCAÑA, the largest Colombian sugarcane and sugar producers 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. b) Approximately 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 6 month period, any excess is re-distributed to the large sugar mills. c) The remaining 2 percent of the total quota volume is granted to new panela exporters.

Stocks

We have revised downward our estimate of carryin sugar stocks for 1998/99 to 105,000 tons from 215,000 tons. This is due to larger than initially estimated sugar exports in 1997/98. This carryover level corresponds to slightly more than two weeks of domestic consumption and export requirements. This end-of-season stock level is the lowest level the local industry has seen in the past . With production expected to rise only marginally this year, the lower carryin stock level will limit exports in 1998/99.

Policy

A. 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 1960's, 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 4 percent for panela. 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 international prices.

B. Price Band: Under 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 its basic import duty and the application of the Andean Community's price band and reference price systems, 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 2 weeks. If the applicable reference price falls within the floor and ceiling price band, the import duty is calculated using the common external tariff rate for the Andean Community 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 second half of March 1999, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar is equivalent to 80 percent of the reference price or \$259 per ton while the total effective duty for refined sugar is 101 percent of the reference price or \$174 per ton.

Colombia, along with the other countries of the Andean Community, is negotiating a merger with Mercosur (the South American economic trade group consisting of Argentina, Brazil, Chile, Uruguay, and Paraguay). Under pressure from the Colombian sugar sector, the Colombian Government has excluded sugar from the Mercosur negotiations. The Colombian sugar industry argues that Mercosur sugar, especially from Brazil, is heavily subsidized.

TABLES**Colombia: Sugar Cane for Centrifugal, 1997/98 - 1999/2000**

| | | | | | | |
|-----------------------|------------------------|-------|---------|-------|---------|-------|
| PSD Table | | | | | | |
| Country: | Colombia | | | | | |
| Commodity: | Sugar Cane Centrifugal | | | | | |
| | 1998 | | 1999 | | 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 09/1997 | | 09/1998 | | 09/1999 | |
| Area Planted | 186 | 189 | 189 | 190 | | 191 |
| Area Harvested | 171 | 185 | 175 | 184 | | 184 |
| Production | 18900 | 17900 | 17600 | 18200 | | 18400 |
| TOTAL SUPPLY | 18900 | 17900 | 17600 | 18200 | | 18400 |
| Utilization for Sugar | 18900 | 17900 | 17600 | 18200 | | 18400 |
| Utilizatr for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 18900 | 17900 | 17600 | 18200 | 0 | 18400 |

Colombia: Centrifugal Sugar, PSD, 1997/98 - 1999/2000

| | | | | | | |
|------------------------|----------|------|---------|------|---------|------|
| PSD Table | | | | | | |
| Country: | Colombia | | | | | |
| Commodity: | Sugar | | | | | |
| | 1998 | | 1999 | | 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 09/1997 | | 09/1998 | | 09/1999 | |
| Beginning Stocks | 255 | 255 | 215 | 105 | 180 | 97 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Cane Sugar Production | 2154 | 2154 | 2200 | 2180 | | 2220 |
| TOTAL Sugar Production | 2154 | 2154 | 2200 | 2180 | 0 | 2220 |
| Raw Imports | 2 | 2 | 2 | 2 | | 1 |
| Refined Imp.(Raw Val) | 8 | 6 | 8 | 5 | | 5 |
| TOTAL Imports | 10 | 8 | 10 | 7 | 0 | 6 |
| TOTAL SUPPLY | 2419 | 2417 | 2425 | 2292 | 180 | 2323 |
| Raw Exports | 435 | 636 | 430 | 450 | | 450 |
| Refined Exp.(Raw Val) | 395 | 362 | 410 | 410 | | 410 |
| TOTAL EXPORTS | 830 | 998 | 840 | 860 | 0 | 860 |
| Human Dom. Consumption | 1330 | 1259 | 1360 | 1290 | | 1320 |
| Feed Dom. Consumption | 44 | 55 | 45 | 45 | | 45 |
| TOTAL Dom. Consumption | 1374 | 1314 | 1405 | 1335 | 0 | 1365 |
| Ending Stocks | 215 | 105 | 180 | 97 | 180 | 98 |
| TOTAL DISTRIBUTION | 2419 | 2417 | 2425 | 2292 | 180 | 2323 |

Colombia: Centrifugal Sugar, Import Trade, 1997/98

| | | | |
|---------------------|-------------------|--------|-------------------|
| Import Trade Matrix | | | |
| Country: | Colombia | Units: | 1,000 metric tons |
| Commodity: | Centrifugal Sugar | | |
| Time period: | 9-1997/98 | | |
| Imports for | 0 | | 1999 |
| U.S. | | U.S. | |
| Others | | Others | |
| Bolivia | 7 | | |
| Brazil | 1 | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 8 | | 0 |
| Others not listed | | | |
| Grand Total | 8 | | 0 |

Colombia: Centrifugal Sugar, Export Trade, 1997/98

| | | | |
|---------------------|-------------------|--------|-------------------|
| Export Trade Matrix | | | |
| Country: | Colombia | Units: | 1,000 metric tons |
| Commodity: | Centrifugal Sugar | | |
| Time period: | 9-1997/98 | | |
| Exports for | 0 | | 1999 |
| U.S. | 149 | U.S. | |
| Others | | Others | |
| Venezuela | 434 | | |
| Ecuador | 184 | | |
| Peru | 92 | | |
| Haiti | 41 | | |
| Sri Lanka | 26 | | |
| Russia | 22 | | |
| Canada | 18 | | |
| Honduras | 17 | | |
| Chile | 11 | | |
| Trinidad & Tobago | 3 | | |
| Total for Others | 848 | | 0 |
| Others not listed | 1 | | |
| Grand Total | 998 | | 0 |

Colombia: Refined Sugar, Retail Prices, 1997/98

| | | | |
|----------------------|---------------|---------------------------|----------|
| Prices Table | | | |
| Country: | Colombia | | |
| Commodity: | Refined Sugar | | |
| Year: | 1998 | | |
| | | | |
| Prices in (currency) | Pesos | per (uom) | kilo |
| | | | |
| Year | 1997 | 1998 | % Change |
| Jan | 726 | 810 | 11.6% |
| Feb | 698 | 789 | 13.0% |
| Mar | 714 | 817 | 14.4% |
| Apr | 730 | 1000 | 37.0% |
| May | 730 | 1050 | 43.8% |
| Jun | 740 | 1050 | 41.9% |
| Jul | 750 | 1025 | 36.7% |
| Aug | 755 | 1000 | 32.5% |
| Sep | 762 | 984 | 29.1% |
| Oct | 774 | 990 | 27.9% |
| Nov | 786 | 995 | 26.6% |
| Dec | 798 | 1000 | 25.3% |
| | | | |
| Exchange Rate | 1550 | (Local currency/US \$) | |
| Date of Quote | 06-Apr-99 | (MM/DD/YY) | |

Colombia: Sugarcane, Non-centrifugal, 1997/98 - 1999/2000

| PSD Table | | | | | | |
|-----------------------|-------------------------------|-------|---------|-------|---------|-------|
| Country: | Colombia | | | | | |
| Commodity: | Sugar Cane Non-Centrifugal | | | | | |
| | 1998 | | 1999 | | 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 09/1997 | | 09/1998 | | 09/1999 | |
| Area Planted | 326 | 326 | 328 | 328 | 0 | 328 |
| Area Harvested | 212 | 212 | 213 | 213 | 0 | 213 |
| Production | 10600 | 10600 | 10650 | 10650 | 0 | 10650 |
| TOTAL SUPPLY | 10600 | 10600 | 10650 | 10650 | 0 | 10650 |
| Utilization for Sugar | 10600 | 10600 | 10650 | 10650 | 0 | 10650 |
| Utilizatn for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 10600 | 10600 | 10650 | 10650 | 0 | 10650 |

Colombia: Non-centrifugal Sugar, PSD, 1997/98 - 1999/2000

| PSD Table | | | | | | |
|-------------------|--------------------------|------|---------|------|---------|------|
| Country: | Colombia | | | | | |
| Commodity: | Non-Centrifugal Sugar | | | | | |
| | 1998 | | 1999 | | 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 09/1997 | | 09/1998 | | 09/1999 | |
| Production | 1260 | 1266 | 1263 | 1269 | 0 | 1272 |

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