



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/17/2001

GAIN Report #CO1009

Colombia

Sugar

Annual

2001

Approved by:

David G. Salmon, Agricultural Attaché

U.S. Embassy

Prepared by:

Leonardo Pinzon, Agricultural Specialist

Report Highlights:

Colombian sugar production is projected to grow at a slow pace, reflecting no change in area planted and slightly higher productivity. If approved, the use of alcohol as an additive to gasoline will increase domestic demand for sugar sharply.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Bogota [CO1], CO

Table of Contents

Executive Summary	2
Production	2
Sugarcane for Centrifugal Sugar	2
Centrifugal Sugar	3
Non-centrifugal Sugar	4
Consumption	4
General	4
Consumption Trends	4
Prices	5
Trade	5
Sugarcane Exports	5
Sugar Exports	5
U.S. Sugar Quota	6
Stocks	7
Policy	7
Production Policy	7
Export Policy/Subsidies	7
Price Band	8
Andean Community and Mercosur Merger	8
Alcohol to be Used as Fuel	8
Sugar Price Stabilization Fund Created	9
TABLES	11
Colombia: Centrifugal Sugar, PS&D, 1999/00 - 2001/02	11
Colombia: Sugarcane for Centrifugal Sugar, 1999/00 - 2001/02	12
(1,000 hectares and 1,000 tons)	12
Colombia: Exports of Centrifugal Sugar, 1999	13
Colombia: Retail Prices for Refined Sugar, 1999 - 00	14
Non-centrifugal Sugar Area and Cane Production	
1999/00 - 2001/02	15
Non-centrifugal Sugar, PS&D, 1999/00 - 2001/02	16

Executive Summary

Further expansion of Colombian sugarcane *acreage* for centrifugal sugar is not likely, since the area available for this crop seems to be limited to 200,000 hectares. Currently, Colombia has 190,000 hectares planted to sugarcane for centrifugal sugar. Sugar *production*, at 2.37 million tons in 2000/01, is projected to grow only about one or two percent annually in the next few years. The sugar industry has undertaken to reach minimal levels of sugarcane foliage burning by the year 2005. 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 outlook for non-centrifugal sugar (panela) output is for modest reductions in the next few years, as domestic consumers shift to refined sugar.

Sugar *use* fell five percent in 1998/99, due to the economic recession the country has experienced the past three years. However, the economy seems to be improving modestly, which should result in increased sugar consumption. Domestic sugar consumption would be affected significantly, if the mandatory use of *alcohol* as an additive in gasoline is put into place. In Colombia, there is a trend toward substituting refined brown sugar for refined white sugar and panela.

Colombia sugar *exports* account for about 40 percent of production. About one-fifth 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 almost half of the Colombian exports. Over the past 15 years, Colombia has been shifting from exporting raw sugar to the refined product, in an attempt to sell a higher value-added product. Currently, about 40 percent of sugar exports consists of refined sugar. About three percent of the sugar exported enters the United States under the sugar import quota.

The Andean Community has been seeking to *merge with Mercosur* in recent years, however, since this process has been delayed, the Community decided to negotiate agreements with the individual countries. A two-year agreement with Brazil was signed in August 1999, however, sugar was excluded from the agreement. As of January 2001, contributions to the Sugar Price **Stabilization Fund** are required, which is expected to help stabilize income levels for sugar producers.

Production

Sugarcane for Centrifugal Sugar

Colombia's planted sugarcane area is projected to increase by only 0.5 percent each year in the 2000/01 and 2001/02 crop years. The total area should reach 192,000 hectares in 2001/02 (September-August). The international price recovery during 2000, after a sharp decline in 1999, spurred growers to maintain planted area instead of switching some production areas to corn, which they were considering. Increased plantings are not foreseen, since the volatility in international market prices creates too much risk. Sugarcane, however, continues to be one of the most profitable crop alternatives in the Cauca valley the main Colombian sugar producing

region. Harvested sugarcane area in 2000/01 is estimated at 95 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 plantings 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 2.33 to 2.7 million tons over the next 5-6 years.

Land limitations and the security threat posed by insurgent groups active in the countryside has 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. 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, use of harvesting machinery results in lower employment, and green cane cutting reduces the hand-cutting rate by two-thirds. In the past three years, the sugarcane industry has reduced burning of cane in 60,000 hectares or one-third of current sugar cane area.

Centrifugal Sugar

Sugar production is projected to show a two percent increase to 2.37 million tons in 2000/01 year. Sugarcane production has benefitted from stable weather patterns, timely rainfall, along with technical improvements at the sugar mill. Assuming that normal weather prevails, Colombia's sugar production in 2001/02 is forecast to increase one percent to 2.4 million tons.

Sugar production over the next 3 - 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.

Non-centrifugal Sugar

Non-centrifugal sugar (panela) output in 2000/01 is projected at 1.25 million tons, slightly lower than the previous year. A reduction of less than one percent in the panela production level is forecast for 2001/02. Panela output is projected to decline modestly over the next 3-5 years, reflecting a shift in domestic consumption to centrifugal sugar.

Consumption

General

Human consumption of sugar in Colombia during 1999/00 dropped five percent to 1.34 million tons, as a result of the severe economic recession that this country had been experiencing over the past three years. Although the economy recovered in 2000, 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 2000/01 are for human sugar consumption to remain unchanged. In addition, no significant increases are expected in the following two years.

The volume of sugar utilized in the manufacture of mixed feed is expected to grow slightly to 50,000 tons in 2000/01. Sugar as an input for prepared animal feeds is expected to remain at current levels during the next 2 to 3 years.

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 37 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 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 2000 represented ten percent of total sugar exports, up from just one percent in 1993.

Prices

The average retail price for sugar in the first half of April 2001 was 1,408 pesos per kilogram (\$0.60 per pound), a 30 percent increase over a year ago. This upward trend started at the beginning of year 2000, after having remained virtually unchanged during 1998-1999.

The average retail price for panela (non-centrifugal sugar) stands at 1,050 pesos per kilogram (\$0.23 per pound), 13 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 30 percent lower than that for sugar.

Trade

Sugarcane Exports

Colombian exports of sugarcane in 2000/01 are estimated at 37,000 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 about 40 percent of its sugar output. According to official trade data recently made available, Colombian sugar exports grew by 18 percent in 1999/2000 to 1,078,000 tons. This was due to a recovery in the world raw sugar prices during that year, increasing from \$0.05 per pound in May 1999 to \$0.10 per pound in August 2000. Depending on world prices, sugar exports in 2000/01 and 2001/02 are estimated to grow by two percent, since Colombian exports are encouraged by the Price Stabilization Fund Mechanism in place since January 2001.

Venezuela has been the most important customer for Colombia's sugar, normally accounting for about 20 percent of all export shipments. In April 2000, the Venezuelan government established the import license requirement for the Colombian sugar, which means that Venezuela may deny entry to the Colombian sugar at any time. Colombia's exports to Venezuela decreased 55 percent in year 2000. Also, Ecuador restricted purchases from Colombia, which resulted in 25 percent reduction in Colombia's sugar exports to that country.

Other key destinations in the Andean region are Peru and Chile, which take about 15 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 1999/00 amounted

to 358,000 tons (raw equivalent), accounting for 37 percent of total sugar shipments.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Colombia exported 4,724 tons of panela in 1999/00, twice as much as a year earlier. The main buyer for Colombia's panela is the United States, which takes above two-thirds of all panela exports. Most of this product is consumed by U.S. Hispanic consumers. Haiti and Venezuela purchased about 20 percent of total exports and the European Union the remainder.

Sugar imports are minimal and occur only when price differentials favor them. They come mainly from fellow Andean Community countries.

U.S. Sugar Quota

Colombia exported 67,000 tons of raw sugar to the United States in 1999/00. The U.S. sugar import quota for Colombia during the October 2000-September 2001 period is fixed at 25,274 tons. To date, the U.S. sugar import quota assigned to Colombia is the same volume assigned the previous year.

The U.S. sugar import quota for Colombia represents only one percent of Colombia's total sugar export volume but the local industry views this volume to be significant, given the profitability of these sales. The price for the U.S. quota sugar sales to the United States was a 173 percent above international prices. 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

We have revised downward our estimate of carry-in sugar stocks for 1999/2000 to 60,000 tons from 88,000 tons. This is due to larger-than-initially-estimated exports during that year. This carry-over level corresponds to three weeks' domestic consumption. These stocks are considered adequate, since Colombia enjoys the unique ability to produce sugar year round.

Policy

Production Policy

Because the sugar sector is economically vibrant, the GOC 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 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. 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 second half of April 2001, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar is equivalent to 38 percent of the reference price or \$81 per ton while the total effective duty for refined sugar is 56 percent of the reference price or \$140 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. The Community expects that by that time the complete Mercosur block will be ready to merge. 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

The Colombian government seriously considered mandating the use of alcohol as a gasoline additive to reduce pollution, but has yet to approve a decree putting this measure in place. This is seen as the market development with the greatest potential for increased demand for sugar in Colombia. The Sugar Grower Association (ASOCANA) estimates that nearly 50 percent of the total production would be directed to the alcohol production to meet the initial mix requirement by the prospective law. The sugar industry has a project ready to move forward to set up a pilot alcohol production plant, but, in the absence of the mandatory decree, the project is on hold.

Sugar Price Stabilization Fund Created

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 start working in January 2001, and sugar producers have made their initials contributions. The mechanism would help to stabilizes the income of growers, since the lower prices received by exporters

will be offset by contributions made by selling at the higher local market prices.

TABLES

Colombia: Centrifugal Sugar, PS&D, 1999/00 - 2001/02 (1,000 tons)

PSD Table						
Country	Colombia					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Beginning Stocks	49	72	88	60	109	61
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2260	2330	2280	2370	0	2400
TOTAL Sugar Production	2260	2330	2280	2370	0	2400
Raw Imports	1	1	1	1	0	1
Refined Imp.(Raw Val)	9	9	8	9	0	9
TOTAL Imports	10	10	9	10	0	10
TOTAL SUPPLY	2319	2412	2377	2440	109	2471
Raw Exports	520	601	535	623	0	640
Refined Exp.(Raw Val)	420	358	415	360	0	363
TOTAL EXPORTS	940	959	950	983	0	1003
Human Dom. Consumption	1209	1345	1235	1346	0	1347
Feed Dom. Consumption	82	48	83	50	0	50
TOTAL Dom. Consumption	1291	1393	1318	1396	0	1397
Ending Stocks	88	60	109	61	109	71
TOTAL DISTRIBUTION	2319	2412	2377	2440	109	2471

Source: Asocaña (Colombian Sugar Growers Association).

Colombia: Sugarcane for Centrifugal Sugar, 1999/00 - 2001/02
(1,000 hectares and 1,000 tons)

PSD Table						
Country	Colombia					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Area Planted	191	190	191	191	0	192
Area Harvested	169	180	169	182	0	182
Production	19200	19000	19400	19200	0	19300
TOTAL SUPPLY	19200	19000	19400	19200	0	19300
Utilization for Sugar	19200	19000	19400	19200	0	19300
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	19200	19000	19400	19200	0	19300

Source: Asocaña (Colombian Sugar Growers Association).

Colombia: Exports of Centrifugal Sugar, 1999 (1,000 tons)

Export Trade Matrix			
Country	Colombia		
Commodity	Centrifugal Sugar		
Time period	Jan-Dec	Units:	1,000 mt
Exports for:	2000		2001
U.S.	67	U.S.	
Others		Others	
Venezuela	135		
Russia	241		
Canada	97		
Peru	96		
Sri Lanka	80		
Chile	64		
Haiti	57		
Kenya	43		
Ecuador	26		
Trinidad/Tobago	25		
Total for Others	864		0
Others not Listed	147		
Grand Total	1078		0

Source: DANE (National Statistics Bureau).

Colombia: Retail Prices for Refined Sugar, 1999 - 00 (Pesos per kilogram)

Prices Table			
Country	Colombia		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	kilo
Year	1999	2000	% Change
Jan	960	1020	6.25%
Feb	970	1030	6.19%
Mar	980	1060	8.16%
Apr	990	1080	9.09%
May	990	1080	9.09%
Jun	1000	1100	10.00%
Jul	1000	1140	14.00%
Aug	1000	1190	19.00%
Sep	1050	1200	14.29%
Oct	1040	1230	18.27%
Nov	1000	1280	28.00%
Dec	1000	1350	35.00%
Exchange Rate	2314	Local currency/US \$	

Source: Agricultural Attaché's Office surveys.

**Colombia: Non-centrifugal Sugar Area and Cane Production
1999/00 - 2001/02 (1,000 Hectares and 1,000 Tons)**

PSD Table						
Country	Colombia					
Commodity	Sugar Cane, Non-Centrifugal				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Area Planted	328	325	329	322	0	320
Area Harvested	213	211	214	209	0	209
Production	10650	10550	10700	10450	0	10400
TOTAL SUPPLY	10650	10550	10700	10450	0	10400
Utilization for Sugar	10650	10550	10700	10450	0	10400
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	10650	10550	10700	10450	0	10400

Source: Ministry of Agriculture.

Colombia: Non-centrifugal Sugar, PS&D, 1999/00 - 2001/02 (1,000 tons)

PSD Table						
Country	Colombia					
Commodity	Non-centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Production	1278	1260	1284	1250	0	1245

Source: Ministry of Agriculture.