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Sugar Annual

Minimal Changes Expected in Colombia's Sugar Market

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Report Highlights:
Colombian sugar production is forecast to increase to 2.25 million tons in MY 2011/2012 from the 2.2 million tons reached in MY 2010/2011. Sugar exports are projected at 800,000 tons in MY 2011/2012, 1.3 percent over last year. Ethanol production capacity will expand by 200,000 liters a 20 percent of the current capacity. Local consumption is forecast to remain at 1.62 million tons. In December 2010, the Colombian government lowered the import duty on sugar and sugar products by 5 percent.

Executive Summary:

Colombian sugar production is forecast at 2.25 million tons in MY 2011/2012, 50,000 tons higher than the year before. The area available for sugarcane in the Cauca river valley is virtually all planted and the area for expansion is marginal. Moreover, Colombia is one of those rare countries where high international sugar prices have no effect on sugar production because of its land unavailability. Sources believe a technological change and the implementation of the program of land management by specific areas could bring about gains in sugarcane production by hectare. Sugar exports are expected to decline by 80,000 tons, to 790,000 tons in MY 2010/2011, due to the extreme rainfall that hit sugar production; this decline in sugar production is affecting the sugar availability for exports. Colombian sugar exports are projected to reach 800,000 tons in MY 2011/2012. This is a relatively small increase in exports due primarily to new ethanol expansion projects entering into production, thus resulting in more sugar being taken away from exports for ethanol production. On November 5, 2010, the Ministry of Foreign Trade issued the decree 4114 which lowered the import tariff for sugar and sugar products by 5 percent from its previous duty.

Commodities:

Sugar, Centrifugal

Production:

In MY 2010/2011, sugar production is expected at 2.2 million tons, 94,000 tons lower than the year before. Some sugarcane areas could not be harvested due to “la Niña” strong rains that caused flooding and soil saturation. In the fourth quarter of 2010 the sugarcane crushing declined 21 percent compared to the same quarter in 2009, and 25 percent lower than the third quarter of 2010. Sugar production is forecast to increase to 2.25 million tons in MY 2011/2012 , which would be 50,000 tons higher than a year before, but 70,000 tons lower than the last five years production average. One factor that limits the increase in sugar production is the expansion in ethanol producing facilities. As ethanol production capacity expands a larger sugarcane amount is devoted for ethanol production. In 2011, ethanol production will increase by 200,000 liters per day. The facilities for ethanol and sugar production are located one near to the other which makes it more efficient for the input of sugarcane to be devoted for processing either product. Changes in total production will depend on the weather which affects conversion factors when processing sugarcane, and the program of land management by specific areas.

Colombia harvests sugar cane year-round which makes sugar and ethanol production a continuous process. Sugar cane areas, sugar mills and ethanol facilities are located in the valley of the Cauca river. This situation sets a limit to the area for sugarcane to be economically efficient, and in 2005 when ethanol facilities projects became a reality the area available was almost covered and since then, increases in the area planted have been marginal.

The sugarcane area planted in the valley of Cauca totals 208,000 hectares, which is virtually considered all of the total land available for sugarcane under efficient production. It is also calculated that 18 percent of this area is devoted to ethanol production. The average area planted in the last 10 years was

200,000 hectares. This has led sugarcane and sugar producers to increase production through gain in efficiencies. In fact, it is reported that Colombia is the most efficient sugarcane producer in Latin America with 120 tons of sugarcane per hectare followed by Guatemala, 100 tons, Brazil 80 tons, and Mexico 70 tons of sugarcane per hectare respectively.

The Colombian sugar industry is actually a cluster around sugarcane; sugar, ethanol, food industry and also power generation. The recent player (2005) into the cluster was the ethanol production that really impacted the sugar production and allocation into the local and external market. Ethanol production substitutes partially sugar exports, and began to compete with sugar production in late 2005. Ethanol production will increase its capacity by 200,000 liters to reach 1.3 million liter per day in late 2011, around 385 million liters production a year.

The sugar industry is currently focused in developing a program of land management by specific areas to increase productivity given the land expansion constrain. This program identifies different soil characteristics for small areas and then develops a management program for that specific area. The industry expects that the implementation of this program will take sugarcane production from 120 ton per hectare to 160 tons per hectare in 2020 year.

Colombia is the second largest **non-centrifugal sugar (panela)** producer in the world after India. In 2010, Colombian sugarcane area harvested for panela was 202,000 hectares out of 240,000 hectares planted. Production reached 1.3 million tons of panela 100,000 tons lower than the year before due to the impact of extreme rainfall. Post does not expect production of panela to change in 2011. Panela production is distributed among 70,000 farms, and employs approximately 120,000 subsistence farmers located throughout the country.

The Government is supporting two small pilot projects for ethanol production in panela-producing regions to evaluate the potential of producing ethanol versus panela. The project is to use sugarcane used for panela and for ethanol production in a larger scale.

Consumption: In MY 2010/2011, Colombian sugar consumption is expected at 1.6 million tons, similar to the previous year as a result of Colombia's economic performance. Consumption has been led by increasing demand from the confectionary sector to meet increased exports of processed food products. Sugar mills will continue to prioritize the Colombian refined sugar market because of higher prices and higher returns compared to raw sugar exports.

Trade:

Colombia is a net sugar exporter. Colombia has 13 sugar mills all located in the geographical Valle of Cauca river; Colombian sugar for exports decreases when ethanol production increases as part of the sugar cluster. Exports fell by 80,000 tons, to 790,000 tons in MY 2010/2011 due to the extreme rainfall that affected sugar harvesting. A small increase in sugar exports is forecast to reach 800,000 tons in MY 2011/2012 due to the expansion in ethanol production will take more sugarcane otherwise devoted to sugar production for exports. Colombian sugar producers continue their efforts in order to increase markets for exports of higher priced refined sugar. In MY 2010/2011, 73 percent of total Colombian sugar exports were high-priced sugar.

Colombian sugar is exported to a wide range of countries. Chile continues as the first destination of Colombian sugar exports, which reached 185,000 tons, 85,000 higher than the year before, followed by

Mexico and the United States. Chile represented 35 percent of total Colombian exports and the United States 11 percent in MY 2009/2010. The sugar exported to the United States was 4 times the sugar quota assigned for fiscal year 2009. Exports were also hit by “La Niña” flooding, which led to a 60 percent decline in total exports compared to the same period the year before. The industry expects to increase exports in MY 2011/2012 as the weather returns to more normal pattern.

Colombia’s sugar imports increased to 185,000 tons in MY 2009/2010, and our sources indicate that sugar imports will decline to 160,000 ton in MY 2010/2011, due to increase in domestic production. Bolivia, Brazil and Perú supplied 90 percent of the total Colombian imports. Imports from Bolivia and Ecuador enter duty free under the Andean Community agreement, and Brazil is granted a duty preference compared to other suppliers under the Regional Preferences of the Latin America Integration Association (LAIA).

Stocks:

Colombia produces sugar year-round and is able to supply the market on a regular basis and without disruptions, so there are not programs or incentives for sugar mills to keep inventories according to our sources. Private sector sugar working inventories which includes product in transit to exporting markets, are projected to reach 350,000 tons in MY 2010/2011, 55,000 tons lower than the year before. In MY 2011/2012, it is forecast that inventories would decline only by 5,000 tons, to 345,000 tons.

Policy:

Tariff Modification

In early November 2010, the High Council of Foreign Trade advised the Colombian Government to reduce import tariffs aimed to reduce production costs, unemployment rate, the tariff dispersion, and to simplify the custom administration and eliminate the bias against exports. As a result, Colombia reduced import duties on November 5, 2010 for over 4,000 tariff lines (Decree 4114 and 4115). The average nominal import duty was reduced to 8.25%. In addition, due to the prevalence of high world prices for agricultural products, the Colombia’s applied duties have not exceeded the WTO negotiated bound tariffs. The main products that received tax reduction were consumer goods, capital goods, and raw materials. The import duty on sugar and sugar products were reduced by 5 percent from its previous duty. The import duty for sugar is now 15 percent. The sugar and sugar products will remain into the price band system (see below).

Sugar Price Stabilization Fund (PSF)

Colombia produces sugar far in excess of its internal demand that convert it into a net exporter. The PSF mechanism was established in 2001 to avoid an oversupply of internal market that would have lowered prices at a point that would have made some sugar mills go out of business. This PSF set a market weighted average price (MWAP), which includes prices from all markets, lower and high price markets. Then, those mills that sell sugar into markets at prices above the MWAP will contribute to the PSF and, conversely, for those mills that sell into markets at prices below the MWAP will receive compensation from the PSF. In the end, exporters income reflect neither selling at a price that is as high as the higher-priced markets nor as lower as the lower-priced markets. Historically, the markets of higher prices have been the U.S. quota and the local market and the external markets the lower-priced.

Price Band

Under the Andean Community regulations, sugar imports from other Andean Community countries are allowed duty-free entry into Colombian market. Imports from outside the Andean Community are subject to a variable duty under the Andean price band system. The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 15 percent.

The Andean Community revises the band of prices, ceiling and floor, annually every April. The duty adjustment is made based on whether a reference price is above or below the ceiling and floor price respectively. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the import duty is the basic tariff rate, 20 percent in the case of sugar, applied to the invoice value. When the reference price falls below the floor price, a variable 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 based upon the difference between the reference and the ceiling price.

The Andean Community set the price band to be applied for the period April 2011 to March 2012 as follows, which is an increase for the third consecutive year, as noted below:

Andean Community Price Band April 2010 to March 2011				
	Floor Price *$ per ton April / March*		***Ceiling Price*** *$ per ton April / March*	
	2010/11	**2011/12**	**2010/11**	**2011/12**
Raw Sugar	313	364	388	471
Refined Sugar	408	470	490	585
Source: Andean Community				

For the first two weeks of April 2011, reference prices for raw and refined sugar were set at $674/ton and $763/ton respectively. Thus, Colombia's current total effective duty, which is the basic duty, on imports of raw and refined sugar is zero percent given that the reference prices for both products are well above the ceiling price.

Colombian Trade promotion Act (CTPA)

Colombia and the United States signed a free trade agreement in November 2006 yet to be ratified by the U.S. Congress. Under this agreement the price band duty system will be removed for imports from the United States. The agreement set a TRQ of 10,500 tons for glucose, which includes high-fructose corn syrup that increases 5 percent annually for 10 years. At the same time, the basic import duty above the TRQ will be reduced from 20 percent by 2 percent annually until it is eliminated at the end of the 10-year phase-out period.

Andean Community and Mercosur

Andean Community members (Peru, Ecuador and Bolivia) have free access to Colombia's sugar market, as does Colombia to each of their markets. Under the Colombia/Mercosur free trade agreement, which entered into effect in February 2005, sugar was largely excluded. Colombia maintains the price band system an there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant duty preferences under previous bilateral agreements such that Mercosur members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina and Brazil 13.2 percent for raw and refined sugar; Paraguay 9.9 percent on raw and refined sugar; and Uruguay 12 percent on raw and refined sugar.

Prices

The price for local sugar in Colombia is mainly based on international sugar prices adjusted with transportation costs and import duties to the local market. The duty for sugar is a variable duty under the Andean price band mechanism (see price band above). The New York Commodity Exchange price is the basis for raw sugar and the London Sugar Exchange price is the basis for refined or white sugar.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Sep 2009		Market Year Begin: Sep 2010		Market Year Begin: Sep 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	416	416	321	405		350
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,200	2,294	2,200	2,200		2,250
Total Sugar Production	2,200	2,294	2,200	2,200		2,250
Raw Imports	0	0	0			0
Refined Imp.(Raw Val)	40	185	40	160		170
Total Imports	40	185	40	160		170
Total Supply	2,656	2,895	2,561	2,765		2,770
Raw Exports	200	250	200	250		250
Refined Exp.(Raw Val)	530	620	540	540		550
Total Exports	730	870	740	790		800
Human Dom. Consumption	1,600	1,615	1,620	1,620		1,620
Other Disappearance	5	5	5	5		5
Total Use	1,605	1,620	1,625	1,625		1,625
Ending Stocks	321	405	196	350		345
Total Distribution	2,656	2,895	2,561	2,765		2,770
1000 MT						