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El Salvador

Sugar

Annual

2000

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Report Highlights:
This report contains updated PSD numbers for sugar in El Salvador. Sugar cane production and exports for 1999/00 are forecast higher. However, low international prices, declining access to U.S. quota are putting a financial stress on producers marking the 3-5 year outlook negative.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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EXECUTIVE SUMMARY

Due to low international prices, uncertainty of the U.S. Sugar Quota and lack of adequate internal agricultural policies; the 3 to 5 year outlook for El Salvador's sugar industry looks negative. Arrears from the 1998/99 crop due to production losses caused by El Niño and Hurricane Mitch, have put sugar farmers in a very delicate financial situation. In addition, a sharp decrease in sugar prices has this sector worried about the future. Even though sugar yields increased for the 1999/00 crop, many sugar cane farmers will not be able to meet their financial commitments. The success of the industry will depend on increased sugar prices, market development and government assistance to ease the burden of already overdue loans.

Sugarcane production for the 1999/00 harvest is estimated at 4.80 million MT. This estimate is approximately 6.0 percent higher than the one previously reported. Favorable weather throughout the cane development and harvest period positively affected sugarcane development. While it is still too early to forecast the 2000/01 harvest, according to the Sugar Development Commission (CDA), sugarcane production is expected to be lower than the 1999/00 harvest. Expected reductions in area planted due to the deteriorating financial situation of most sugar cane farmers is the main reason behind the reduction in production.

In 1998/99, El Salvador exported more sugar than previously expected. Ending stocks have been decreased by 5,000 MT to accommodate these increased exports. A 46,000 MT increase in 1999/00 sugar export numbers has been made to better reflect the new higher sugar production estimate. Both production and exports are higher than in 1998/99.

Total sugar exports are expected to increase 23 percent for 1999/00. Refined sugar exports are expected to reach approximately 19,000 MT (raw value) and raw exports 243,000 MT. One of the mills that exported the most refined sugar has decreased added-value production due to strong competition in the international market. The Government of El Salvador (GOES) continues to control wholesale sugar prices. The current average retail price for white plantation sugar is the same as in 1999 and stands at $0.26/per pound.

PSD Table

Country	**El Salvador**					
Sugar Cane for Centrifugal					(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		11/1998		11/1999		11/2000
Area Planted	73	73	70	70	0	68
Area Harvested	71	71	68	68	0	66
Production	4536	4536	4535	4809	0	4533
TOTAL SUPPLY	4536	4536	4535	4809	0	4533
Utilization for Sugar	4536	4536	4535	4809	0	4533
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	4536	4536	4535	4809	0	4533

PSD Table

Country	**El Salvador**					
Centrifugal Sugar					(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		11/1998		11/1999		11/2000
Beginning Stocks	26	26	29	24	23	22
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	435	435	442	490	0	431
TOTAL Sugar Production	435	435	442	490	0	431
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	461	461	471	514	23	453
Raw Exports	190	188	197	243	0	179
Refined Exp.(Raw Val)	18	25	19	19	0	17
TOTAL EXPORTS	208	213	216	262	0	196
Human Dom. Consumption	224	224	232	230	0	236
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	224	224	232	230	0	236
Ending Stocks	29	24	23	22	0	21
TOTAL DISTRIBUTION	461	461	471	514	0	453

PRODUCTION

According to the CDA, sugar cane production during the 1998/99 harvest remains unchanged. Sugar cane ouput in 1998/99 reached 4.54 million MT. Favorable weather in the 1999/00 harvest was responsible for the increased production. Sugar cane production for the 1999/00 harvest reached 4.81 million MT, a 6 percent increase from the number previously reported. Sugar production is estimated to reach 490,000 MT in 1999/00. This sugar production number is approximately 10.8 percent higher than previously reported. The main reason behind this output increase is a sudden increase in sugar recovery yields. According to the Salvadoran Sugar Association, sugar recovery yields are currently averaging 210.5 pounds per MT compared to 186 pounds for the 1998/99 season.

Due to financial constraints area planted is forecast to decrease approximately 3.0 percent for the 2000/01 season. Cotton production areas that were previously shifting to sugar production are now expected to return to cotton and to other more profitable crops. According to the Salvadoran Sugar Association, after setting a historical production record during the 1999/00 harvest, now the sugar sector is facing a deep setback that is likely to keep the sector from growing for at least two harvest periods. Plans from the Cotton Producers Association (COPAL) to produce sugarcane in the eastern coastal region are now on hold due to the chaotic situation. In addition, the GOES is encouraging Salvadoran farmers to shift production to other non-traditional crops, especially produce. Recently the Ministry of Agriculture (MAG) built a farmers market which is expected to help new produce production reach a larger customer base without having to go through middlemen and by doing so obtaining a better price.

Grower prices continue to be set according to sugar content of the cane. Weight no longer plays a role in the pricing policy. Privatization of the remaining GOES sugar mill was completed before the 1999/00 harvest kicked off. The privatization process has helped to reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, a couple of the recently privatized mills are having trouble with the milling process. It seems that their equipment is out of date and their sugar recovery rates are much lower than the rest of the industry. As a result, farmers that deliver their sugar cane to these mills are very upset with the payments that they receive for their product. Local sources believe that sooner or later these mills will fold and sugar cane produced in their area of influence will be absorbed by other more efficient mills.

CONSUMPTION

Local sugar consumption for the 1998/99 season is the same as previously reported. New data from the CDA reveals that consumption reached 224,000 MT for the 1998/99 marketing period. The reason for the stagnation is lower than expected growth of the Salvadoran economy for 1999. Consumption numbers for 1999/00 and 2000/01 are expected to increase at a rate of approximately 2.6 percent.

TRADE

Sugar exports for 1999/00 are expected to increase by 21.3 percent due to higher production. Raw exports are estimated at 243,000 MT and refined exports at 19,000 MT (raw value). In the 1998/99 harvest, exports to non-traditional markets such as Peru, Bulgaria and Russia helped buffer the decrease in exports to traditional markets like Venezuela. According to the Salvadoran Sugar Association, the reduction in the U.S. quota assignment for 1999/00 and the increase in production are the main factors pressuring the sector to search for new markets. El Salvador is expected to meet its U.S. Sugar Quota allocation of 27,381 MT. Exports of refined sugar during the 1998/99 season remain unchanged at 19,000 MT. Currently only two mills, El Angel and Central Izalco are processing refined sugar for export.

The GOES is imposing a 55 percent import tariff on all sugar trade. This tariff is a direct result of a National Forum to reactivate the agricultural sector. The Ministries of Agriculture (MAG) and Economy have agreed to increase the tariff levels for some politically sensitive agricultural products. The proposed tariff change is now in effect and it includes all intra or extra-regional sugar trade.

Due to lack of export destination information, Post will report a complete Export Trade Matrix as soon as hard data becomes available.

Export Trade Matrix			
Country	El Salvador		
Commodity	**Centrifugal Sugar**		
Time period		Units:	MT
Exports for:	**1999**		2000
U.S.	26940	U.S.	27381
Others		Others	
Total for Others	0		0
Others not Listed	186512		235000
Grand Total	213452		262381

STOCKS

In 1998/99 ending stock levels decreased due to higher total exports. Ending stock levels for 1999/00 are estimated at 22,000 MT. GOES' deregulation of sugar distribution and the end of the civil conflict had contributed to a large extent to the decrease in historical stock levels.

PRODUCTION POLICY

The privatization process of government controlled mills is finally over. The GOES has sold off all six mills to private investors. The GOES had originally planned to move a mill to the eastern region of the country. However, due to high transfer costs and a depressed sugar sector this idea has been discarded.

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A. This requirement was implemented in 1994 as a way to reduce cases of blindness among the local population. As of the 1998/99 harvest, the sugar industry had already invested approximately $ 3.7 million in this process.

The GOES through the Multisectoral Investment Bank (BMI), continues to provide financial support to the agricultural sector. Sugar farmers have somewhat benefited from the FINSAGRO program. This program offers lower interest rates (10.5 %) so that farmers can payback overdue loans and have access to fresh working capital. However, sugar farmers believe that if the GOES really wants to restore production levels and help out all the farmers that have been affected by the loss of profitability in this crop, a 6.0 percent interest rate and 20 year payback period loan program is necessary to restore production levels. Post will report on this issue as new information becomes available.

PRICE POLICY

Since April 1997, the wholesale price of white sugar has been increased by $2.00 per cwt to a total price of $23.09 per cwt plus a 13 percent value-added tax. According to the Salvadoran Sugar Association, the increase in prices was a result of complaints from local mills that their returns had diminished because of rising costs of raw materials, transportation and labor. In addition, the Salvadoran Sugar Association claimed that Salvadoran wholesale sugar prices were out of line with El Salvador's neighbors resulting in increased contraband trade. The current wholesale price for one kilogram of refined sugar is 5.16 colones ($0.59) and the retail price is approximately 5.89 colones ($0.67) per kilogram.

Recently, the Salvadoran Association of Sugar Candy Producers publicly expressed their concern that the price for refined sugar in El Salvador is too high. They argue that candy imports from neighboring Honduras and Guatemala are rapidly chopping away market share. Thus, the Candy

Producers Association requested that the GOES allow them to import sugar from other markets free of duty. The GOES has denied this petition mainly due to extensive lobbying on part of the politically strong sugar industry.

The GOES controls sugar prices through the Ministry of Economy at the wholesale level, however, little government effort is made to counter price increases on the part of retailers. The Salvadoran Sugar Association counters these type of acts by publishing real retail prices that consumers should expect to pay.