

**Required Report:** Required - Public Distribution

**Date:** May 22,2020

**Report Number:** EC2020-0008

**Report Name:** Sugar Annual

**Country:** Ecuador

**Post:** Quito

**Report Category:** Sugar

**Prepared By:** Andres Barahona & Gaspar Nolte

**Approved By:** Kirsten Wisniewski luxbacher

**Report Highlights:**

Sugar production in marketing year (MY) 2019 decreased compared to MY 2018 levels. Domestic consumption is forecast to remain stable with small changes in the coming years due to shifting consumption patterns. As sugar supply and demand find an equilibrium, ethanol production appears to be helping to absorb some excess sugar supply.

## Executive Summary:

Ecuador's sugar production in marketing year (MY) 2019/20 is estimated at 529,000 metric tons (MT), down 12,000 MT, or two percent, from MY 2018/19. Production in MY 2020/21 is forecast to further increase to 540,000 MT, up 11,000 MT, or two percent, from the MY 2019/20 estimate. We attribute the increase in sugar production to an increase in per capita human consumption of sugar. However, this can change if there is an increase of the amount of sugar cane destined for ethanol production. Total domestic consumption of sugar in MY 2019/20 is estimated at 557,000 MT, up 14,000 MT or three percent from MY 2018/19. This can be attributed to increased consumption due to population growth. Total domestic consumption in MY 2020/21 is forecast to further increase to 570,000 MT, up 13,000 MT, or two percent, from the MY 2019/20 estimate. Sugar exports in MY 2019/20 are estimated at 41,000 MT, an increase from the MY 2018/19 level of 31,000 MT. Exports in MY 2020/21 are forecast to drop to 30,000 MT. In MY 2019/20, Ecuador filled a large portion of its U.S. sugar tariff rate quota for fiscal years (FY) 2019 and 2020. While Ecuador is largely self-sufficient in raw sugar production, its imports range between 20,000 and 50,000 MT. In MY 2019/20 Ecuador imported an estimated 30,000 MT. Sugar imports in MY 2020/21 are forecast to decrease to 25,000 MT due to higher local production.

## Commodities – Sugar Cane for Centrifugal

Sugar Cane for Centrifugal	2018/2019		2019/2020		2020/2021		
Market Begin Year	June 2018		June 2019		June 2020		
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	Units
Area Planted	89	89	95	90	0	92	(1000 HA)
Area Harvested	87	88	95	89	0	90	(1000 HA)
Production	8100	6632	8500	6620	0	6700	(1000 MT)
Total Supply	8100	6632	8500	6620	0	6700	(1000 MT)
Utilization for Sugar	6600	5632	6500	5620	0	5700	(1000 MT)
Utilization for Alcohol	1500	1000	2000	1000	0	1000	(1000 MT)
Total Utilization	8100	6632	8500	6620	0	6700	(1000 MT)

## Commodities – Sugar, Centrifugal

Sugar, Centrifugal	2018/2019		2019/2020		2020/2021		
Market Begin Year	May 2018		May 2019		May 2020		
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	Units
Beginning Stocks	388	388	420	387	0	348	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	575	541	550	529	0	540	(1000 MT)
Total Sugar Production	575	541	550	529	0	540	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp. (Raw Val)	30	32	25	30	0	25	(1000 MT)
Total Imports	30	32	25	30	0	25	(1000 MT)
Total Supply	993	961	995	946	0	913	(1000 MT)
Raw Exports	13	9	20	3	0	5	(1000 MT)
Refined Exp. (Raw Val)	22	22	30	38	0	25	(1000 MT)
Total Exports	35	31	50	41	0	30	(1000 MT)
Human Dom. Consumption	538	543	555	557	0	570	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Use	538	543	555	557	0	570	(1000 MT)
Ending Stocks	420	387	390	348	0	313	(1000 MT)
Total Distribution	993	961	995	946	0	913	(1000 MT)

### Production:

Planted area for sugar cane in MY 2020/21 is forecast at 92,000 hectares, up just 2,000 hectares from the previous marketing year. Nearly all of the total planted area is expected to be harvested. Estimated yields are forecast at about 74 MT per hectare. FAS Quito estimates that up to 22,000 hectares may be dedicated to sugarcane juice production, which is utilized for making panela (solid blocks), molasses, and ethanol. An exact figure is difficult to calculate at this time as the ethanol production sector has just started to establish itself. FAS Quito will continue to monitor developments in ethanol production. Sixty-five percent of Ecuador's sugar is produced in Guayas province, 28 percent in Cañar, five percent

in Carchi and Imbabura, and the remaining two percent in Loja. All of these areas receive 600-1200 millimeters of rainfall per annum (the majority of which falls during the January-April period).

Sugar cane production in MY 2019/20 was lower than in MY 2018/19 due to lower productivity by hectare. Total sugarcane production in MY 2019/20 is estimated at 6.6 million metric tons (MMT), nearly unchanged from MY 2018/2019. Utilization of sugarcane for sugar production is estimated at 5.6 MMT, similar to MY 2018/19. The difference, about 1 MMT, is likely going to ethanol production. FAS Quito is adjusting down “New Post” total sugar cane production estimated numbers for MY 2018/19 and MY 2019/20 due to new sources of information and agronomic conditions on the ground that resulted on lower productivity per hectare. Sugar cane production for MY 2020/21 is forecast at 6.7 MMT.

Ecuador’s sugar production MY 2019/20 is estimated at 529,000 MT, down 12,000 MT or two percent from MY 2018/19. Although sugar cane destined for sugar production was similar in MY 2019/20 and MY 2018/19, conversion rates were lower in MY 2019/20 due to diminished sucrose content related to harvesting and agronomic conditions. Sugar production in MY 2020/21 is forecast to increase to 540,000 MT, up 11,000 MT or two percent from the MY 2019/20 revised estimate. We attribute the increase in sugar production to stable sugar consumption among Ecuador’s population and an increase in sugarcane use in ethanol production.

Ecuador’s domestic wholesale sugar prices have experienced a decline in recent years. Retail prices on the other hand have remained stable, with a slight downward trend, despite world prices having dropped significantly. Average mill prices in calendar year (CY) 2019 ranged from \$0.68 to \$0.69 per kilogram. The average price per kilogram was \$0.65 per kilogram at the mill gate in CY 2018. The mill prices during the first quarter of calendar year (CY) 2020 averaged \$0.67. The spread between wholesale and retail prices is attributable to the intermediary’s markup, storage, distribution, and advertising costs.

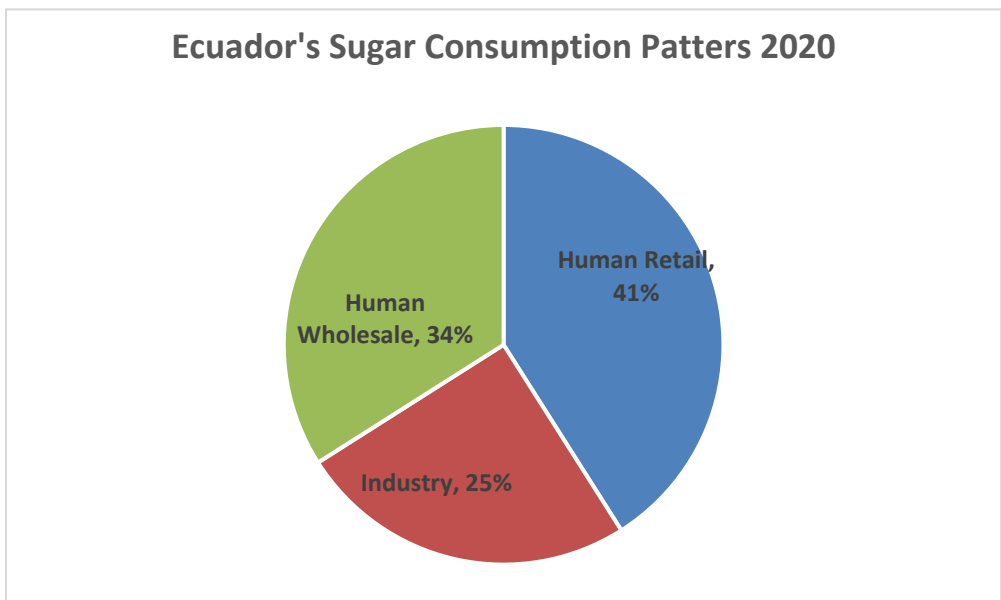
FAS Quito estimates that farmers were paid \$32.20/MT for cut sugar cane in MY 2019/20. During the harvest season, some 13,000 low-skilled laborers are employed by the country’s three largest sugar mills.

### **Consumption:**

FAS Quito estimates total domestic sugar consumption in MY 2019/20 at 557,000 MT, up 14,000 MT, or three percent, from MY 2018/19. Despite this increase, the domestic nutritional food labeling and fiscal policies (a sugar tax) are still affecting sugar consumption. In response to these policies, and to find alternative uses for sugar, mills have increasingly used sugar cane for alcohol production in recent years. Currently about 15 percent of total sugar cane production goes to alcohol production. Domestic consumption in MY 2020/21 is forecast to reach 570,000 MT, up 13,000 MT, or two percent, from the MY 2019/20 estimate. Ecuador’s population was estimated at 16,904,867 in July 2020 (U.S. Census Bureau). Per capita consumption of sugar is estimated at 33.72 kilograms per year.

About 75 percent of sugar cane production is destined for human consumption in the form of white, brown, and specialty sugars. Of this, 45 percent (or 34 percent of total human consumption) is sold in 50-kilogram sacks by wholesalers. Supermarket chains, traditional wet markets, and small

retailers such as neighborhood, family-own stores represent 55 percent of direct distribution to consumers (about 41 percent of total consumption). The remaining 25 percent of consumption corresponds to industrial uses. Sugar is used in the manufacture of sugared beverages, bread, cookies, frozen snacks, confectionery, and jarred goods. In recent years, sugar industrial use has gone from over 40 percent to less than 30 percent of total consumption as industry, mainly sugar manufacturers, have switched to artificial sweeteners due to domestic nutrition policies.



Source: FAS Quito office research.

### Trade:

Post estimates sugar exports in MY 2019/20 at 41,000 MT, an increase of 10,000 MT from MY 2018/19. This increase can be attributed to several factors. Exports in MY 2019/20 were particularly high since Ecuador filled a large portion of its U.S. tariff rate quota (TRQ) in May 2019 and early 2020. Exports in MY 2020/21 are forecast to return to previous levels, reaching 30,000 MT. Refined sugar accounts for the majority of exports.

Ecuador is largely self-sufficient in raw sugar production. Imports range between 20,000 MT and 50,000 MT per year. MY 2019/20 imports are estimated at 30,000 MT. In this marketing year, Ecuador experienced a shortfall in sugar production, which necessitated imports from neighboring Colombia to help satisfy domestic demand. Sugar imports in MY 2020/21 are forecast to decrease to 25,000 MT, down 5,000 MT, or 17 percent, from MY 2019/20. This forecast is based on a fall in imports as local production increases.

Ecuador's surplus sugar production is partly diverted for export to the United States, and to a lesser extent to fellow Andean Community members, Colombia and Peru. Nearly all of U.S. bound sugar is exported under the U.S. Quota Eligibility System. Local and international sugar prices determine whether exports to Colombia and Peru occur. The import/ export trade matrixes for CY 2018 and CY 2019 are included below. The source of the data is the Trade Data Monitor and the numbers do

not account for informal cross-border trade with neighboring countries, Colombia and Peru. FAS Quito understands that depending on exchange rates, trade volumes can become significant

<b>Import/ Export Trade Matrix (Metric Tons)</b>		
<b>Commodity: Sugar</b>		
<b>Time Period</b>	<b>CY 2018</b>	<b>CY 2019</b>
<b>Exports To:</b>		
Colombia	2,508	40,514
United States	6	18,201
Spain	657	726
Others	750	894
<b>TOTAL EXPORTS</b>	<b>3,921</b>	<b>60,335</b>
<b>Imports From:</b>		
Colombia	31,328	21,866
Guatemala	6,865	7,316
Peru	140	138
Others	64	30
<b>TOTAL IMPORTS</b>	<b>38,397</b>	<b>29,350</b>
<b>BALANCE (TE- TI)</b>	<b>-34,476</b>	<b>30,985</b>

Note: Unrecorded cross-border trade is not included.

Source: Trade Data Monitor.

### **Stocks:**

The Government of Ecuador does not maintain a strategic sugar reserve. Private sector sugar mills have invested in sugar storage capabilities. Warehouses are located in Guayaquil and in the Guayas and Cañar provinces. Storage capability is sufficient to absorb production and a six-month reserve (see below a photo of one of many of those storage facilities).



At the beginning of CY 2020, Ecuador shipped almost its entire original FY 2020 TRQ to the United States and has agreed to fill the increased quota it received as part of the FY 2020 TRQ. FAS Quito does not expect any change in Ecuador's ability to fulfill its TRQ in the next few years as the U.S. TRQ represents a small percentage of Ecuador's total production (roughly three percent).

## Policy

Domestic sugar prices remain artificially high due to the insulation of the sugar value-added chain from international trade. An example of government intervention in favor of Ecuador's sugar producers includes COMEX Resolution 030-2017 from December 2017, which effectively stops the preferential treatment (zero tariffs) granted to sugar imports from Andean Community members Colombia, Peru, and Bolivia. This Resolution established a quota for Colombian exports, with zero tariffs, up to 30,000 MT. All sugar exports from other Andean Community countries were made subject to the Andean Price Band System. In 2018, Resolution 030 was replaced with COMEX Resolution 020-2018 from November 20, 2018. Resolution 020 further restricted access to the Ecuadorian market by reducing the quota for Colombian exports to 17,229 MT. Prior to the enforcement of these COMEX Resolutions, Ecuador's sugar imports from the Andean Community benefited from duty-free treatment. Andean Community sugar imports nonetheless required prior government authorization. All-origin raw and refined sugar imports are assessed a 15 percent base tariff. In addition, countries are levied the Andean Price Band System's variable tariff. The variable levy for raw and refined sugar during the first half of April 2020 is set at 20 percent. Sugar imports have a World Trade Organization approved bound tariff rate of 45 percent, which includes price band-related duties.

Three policy changes have affected domestic consumption of sugar in Ecuador over the last few years. First, a 2014 law mandated labeling of all processed food products and beverages sold in Ecuador with a traffic light type label highlighting sugar, salt, and fat content (Ministry of Public Health's Food Labeling regulation, November 29, 2013/ Executive Agreement 4,522; published in the Official Record as R.S. SP134). Second, Ecuador's Ministry of Industries issued Resolution 17 156 in April 2017, which mandates the addition of the following warning for sugar, for food packed for retail sale: "For your health reduce the consumption of this product." Third, the Organic Law to Balance Public

Finances (April 29, 2016 published in the Official Record 744) established the following tax scheme for sugared drinks:

- Soft drinks with a sugar content less than or equal to 25 grams per liter of beverage and energy drinks, are levied a 10 percent ad-valorem tax.
- Non-alcoholic drinks and soft drinks with a sugar content greater than 25 grams per liter of beverage, with the exception of energy drinks, are levied a charge of \$0.18 per each 100 grams of sugar.

Industry sources report that these three policies have affected consumer patterns and increased production costs. Subsequently, food and beverage manufacturers have increasingly replaced sugar with low-calorie sugar substitutes in food and beverage manufacturing.

Sugar is a key component of the basic basket of goods utilized by the government to track inflation. While there is neither a government-set retail price for refined sugar products, nor a government-set price for cut sugarcane or refined sugar, industry sources indicate that the price that sugar cane millers pay to the farmer for sugar cane is tied to the market price of refined sugar. Therefore, high prices paid for sugar cane would explain Ecuador's high prices paid for sugar. Neither farmers nor mills receive domestic or export subsidies. Sugarcane farmers, like other farmers, are eligible for agricultural loans at preferential rates from BanEcuador and the National Finance Corporation.

Ecuador enjoys associate status with the Southern Common Market (MERCOSUR), but it has yet to commence sugar tariff negotiations. Under the Ecuador-European Union Free Trade Agreement that took effect on January 1, 2017, Ecuador benefits from a 25,000 MT tariff-rate quota for sugar and products. The TRQ is composed of 15,000 MT of raw sugar and a 10,000 MT component mix of products such as high-content sugar and cocoa powder. Ecuadorian sugar producers did not claim this quota benefit in 2018 due to domestic supply and freight cost considerations.

The Ecuadorian government is evaluating the inclusion of high rate of ethanol on the gas blend. Right now, gas with ethanol blend is sold in half of the country at a low rate. If the blend is commercialized nationwide and an increase of the blend is promoted, millers may start producing more sugar cane base alcohol.

**Attachments:**

No Attachments