Required Report: Required - Public Distribution

Date: April 14,2020

Report Number: ES2020-0009

Report Name: Sugar Annual

Country: El Salvador

Post: San Salvador

Report Category: Sugar

Prepared By: Miguel Herrera

Approved By: Rachel Nelson

Report Highlights:

Sugar production in marketing year (MY) 20 is estimated at 800,000 metric tons (MT), while production for MY19 has increased to 825,000 MT. Improving international prices have eased the financial pressure on the sugar sector. Although El Salvador joined the Customs Union with Guatemala and Honduras in 2018, sugar was not included in the list of products that benefit from duty-free trade.

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Executive Summary:

Improved seeds, greater access to irrigation systems, continued investment in energy production, new milling technology, and rum production will continue to benefit El Salvador's sugar industry over the next three to five years. Sugarcane production for the MY20 harvest is estimated at 6.8 million metric tons (MMT). Based on new data provided by the Salvadoran Sugar Council (CONSAA) production for MY19 has been revised upward to 7MMT. Boosted by attractive internal prices, exports under free trade agreements, and additional access to the U.S. market, the sector is recovering after sustained economic losses due to natural disasters, high transportation costs, and lack of government assistance. Ultimately the success of the industry will depend on continued improvements in yields, increased diversification into energy co-generation projects, and final approval of a draft law supporting investment in the production of alternative fuels, including ethanol. The law, drafted in August 2009, continues to be on hold and does not have a set date to enter into force. However, under the new administration that took office on June 1, 2019, the law could move forward. The sector continues to be challenged by increased crime rates including extortion, uncontrolled sugarcane burning, high input costs, uncertainty about future international prices, announced increases to the minimum wage, abnormal weather conditions, and now the economic impact caused by COVID-19.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

Sugar production in MY20 is estimated at 800,000 MT. Production continues to improve because of continued investments in irrigation, refining equipment, and improved seeds. Estimated sugar production for MY19 has been increased to 825,000 MT due to favorable weather conditions that led to a higher sugar recovery rate. However, sugar producers believe that erratic weather conditions could affect future sugar production. New data provided by CONSAA shows exports reaching 531,886 MT for MY19 and estimates of 534,200 MT for MY20.

Recent production numbers compiled by FAS El Salvador show that the MY20 sugarcane harvest is expected to reach 6.8 MMT. This production forecast is lower than in MY19 because of the impact of COVID-19 on the overall Salvadoran economy, including the sugar sector.

Planted area is expected to remain at 81,000 hectares during MY20 mainly due to stabilization of the number of producers joining the sector. Planted area could increase soon if the security situation regarding gangs improves in rural areas, if sugar prices increase, and/or if the ethanol production law is implemented. There are approximately 300,000 hectares of idle land in the country that can be devoted to increased sugarcane production. However, the Government of El Salvador (GOES) seems more focused on improving basic grain, vegetable, fruit, dairy and meat production.

Grower prices continue to be set according to the sugar content of the cane. In 2019, CONSAA agreed to increase the share of total sugar sales that producers receive from 54.5 to 56 percent, with the other 44 percent going to the sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane provided. Continued investment in sugar mills has reduced downtime during the milling process and increased sugar recovery rates to a more competitive position within the region.

Consumption:

Due to an already sluggish Salvadoran economy and now the added burden of the COVID-19 pandemic, domestic sugar consumption is expected to decrease to 285,000 MT in MY19. FAS El Salvador estimates that it will remain at that level due to shrinking sugar demand, mainly in the foodservice and confectionary sectors.

Trade:

Exports for MY20 are expected to reach 534,200 MT; the export forecast for MY19 increased to 531,886 MT due to higher sugarcane production as a result of favorable weather conditions in 2019, as well as improved sugar recovery yields.

The GOES imposes a 40 percent ad-valorem import tariff on all sugar. The bound rate is 70 percent, as the GOES considers sugar politically sensitive because it is an important driver of rural income and employment. Even though the Dominican Republic-Central America FTA (CAFTA-DR) encouraged regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar. In August 2018, El Salvador joined the Customs Union with Guatemala and Honduras; however, sugar is not one of the products that will benefit from duty-free trade.

The United States, China, Canada, and Taiwan are major destinations for Salvadoran sugar. In MY19, other export destinations for Salvadoran sugar were South Korea, Romania and Greece.

The decision by the GOES to break diplomatic relations with Taiwan and recognize China created enormous uncertainty in the sugar sector. El Salvador and Taiwan have a free trade agreement (FTA) that includes favorable terms for Salvadoran sugar exports. However, on December 2018, the GOES notified Taiwan that El Salvador would withdraw from the FTA. The sugar sector appealed the decision to El Salvador's highest court and the withdrawal was temporarily halted. This evolving situation continues to be a major issue for the GOES administration that took office on June 1, 2019.

El Salvador also benefits from CAFTA-DR and World Trade Organization (WTO) quotas that allow duty-free entry to the United States for Salvadoran sugar. In 2020 El Salvador was allocated 36,040 MT under CAFTA-DR and 41,401 MT under WTO for the period between October 1, 2019 - September 30, 2020.

Export Trade Matrix **El Salvador** **Centrifugal Sugar** **(Metric Tons)**			
	MY		**MY**
Exports for:	**2019**		**2020**
U.S.	134,165	U.S.	145,200
Others		Others	
China	141,666	China	140,500
Canada	111,200	Canada	110,000
Taiwan	59,200	Taiwan	59,000
South Korea	47,484	South Korea	47,000
Romania	16,327	Romania	9,500
Greece	7,143	Greece	6,000
Haiti	4,257	Haiti	4,000
Italy	2,300	Italy	2,000
Puerto Rico	2,241	Puerto Rico	2,000
Total for Others	391,818		380,000
Others not Listed	5,903		9,000
Grand Total	**531,886**		**534,200**

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in MY20 are estimated at 17,000 MT. Contraband sugar from neighboring countries is negligible and causes no major disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A. Both producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector; instead, limiting market access through import tariff protection continues to be the leading support mechanism.

Under the national sugar law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from government, sugar producers, and sugar mills.

A law for the production of alternative fuels, including ethanol, which was drafted on August 2009, is still on hold. The sugar industry and the GOES have discussed setting a 10 percent blend for ethanol in gasoline, but the current administration has not enacted this law because it says it needs to analyze the impact on the environment and consumers. This potential law is another issue that the sugar industry is discussing with the GOES administration.

The following are areas where the sugar industry continues working to improve sugar profitability:

- Increased extraction rates;
- Investment in irrigation systems;
- Diversification into energy generation;
- Improved sugarcane varieties;
- Research and technology exchange with other sugar producing countries;
- Introduction of pest and disease-resistant sugarcane varieties;
- Rum production; and,
- Coordination with law enforcement to diminish the impact of sugarcane burning and extortions from gangs.

Production, Supply, and Demand Data Statistics:

Sugar Cane for Centrifugal	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	80	80	81	81	0	81
Area Harvested	79	79	80	80	0	80
Production	6560	6712	6640	7058	0	6845
Total Supply	6560	6712	6640	7058	0	6845
Utilization for Sugar	6560	6712	6640	7058	0	6845
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	6560	6712	6640	7058	0	6845
(1000 HA) (1000 MT)						

Sugar, Centrifugal	2018/2019		2019/2020		2019/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	62	62	76	26	0	32
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	757	788	755	825	0	800
Total Sugar Production	757	788	755	825	0	800
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	819	850	831	851	0	832
Raw Exports	451	532	465	534	0	530
Refined Exp. (Raw Val)	0	0	0	0	0	0
Total Exports	451	532	465	534	0	530
Human Dom. Consumption	292	292	294	285	0	285

Other Disappearance	0	0	0	0	0	0
Total Use	292	292	294	285		285
Ending Stocks	76	26	72	32	0	17
Total Distribution	819	850	831	851	0	832
(1000 MT)						

Attachments:

No Attachments