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Jamaica & Dep

Sugar

Annual

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Report Highlights:

Jamaic's sugar production expected to decline further in MY 2001 as a result of high production costs and low productivity in the sector.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Santo Domingo [DR1], JM

Executive Summary

Jamaica's sugar production is expected to further decline during the 2000/2001 crop irrespective of implementation of the Sugar Industry's new five year development plan. The industry continues to be plagued with high production costs, low productivity, high factory down time and low yields. The Government of Jamaica (GOJ), which consistently injects capital in to the sugar industry, has decided to re-privatize the industry within the next five years.

The consumption of refined sugar at the retail level is expected to decline during market year (MY) 2001/2002 due to proposed amendments to the GOJ refined sugar importation policy geared at reducing the entry of duty free sugar to the consumer market. Importation of raw sugar is expected to increase to compensate for the decline in production and to offset the decline in refined sugar import.

Production Supply and Distribution Tables

PSD Sugar Cane Non - Centrifugal

PSD Table						
Country	Jamaica & Dep					
Commodity	Sugar Cane, Non-Centrifugal				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2000		01/2000
Area Planted	46	42	46	43	0	43
Area Harvested	38	39	40	40	0	40
Production	2500	2025	2600	2300	0	2400
TOTAL SUPPLY	2500	2025	2600	2300	0	2400
Utilization for Sugar	2500	2025	2600	2300	0	2400
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	2500	2025	2600	2300	0	2400

PSD Centrifugal Sugar

PSD Table						
Country	Jamaica & Dep					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		12/1999		12/2000		12/2001
Beginning Stocks	6	4	8	10	9	4
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	208	216	215	200	0	215
TOTAL Sugar Production	208	216	215	200	0	215
Raw Imports	50	28	45	38	0	30
Refined Imp.(Raw Val)	45	68	45	60	0	60
TOTAL Imports	95	96	90	98	0	90
TOTAL SUPPLY	309	316	313	308	9	309
Raw Exports	177	180	180	180	0	180
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	177	180	180	180	0	180
Human Dom. Consumption	124	126	124	124	0	124
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	124	126	124	124	0	124
Ending Stocks	8	10	9	4	0	5
TOTAL DISTRIBUTION	309	316	313	308	0	309

Production

The 2000/2001 sugar cane crop is expected to produce moderately less sugar than the 1999/2000 crop due to drought conditions during the planting season and illicit cane fires. While creating the ideal harvesting conditions for the 1999/2000 crop, the extensive drought during February through April of year 2000 restricts the industry's replanting target from a low 16 percent to a mere 6 percent of acreage under cultivation. Illicit cane fires which cost the industry an estimated J$ 101.5 million in 1999/2000 have increased significantly since the beginning of the 2000/2001 crop. In an attempt to minimize the rapidly increasing occurrences of illicit cane fires, the industry has launched a public awareness campaign.

The 2000/2001 sugar cane harvest began at the Frome and Appleton sugar estates during mid to late December. The other four factories in Jamaica commenced operation during mid January to late February. As of March 12, 2001: the crop was 9 days behind the 1999/2000 crop, the factories had ground 811,141 MT of sugar cane producing 75,606 MT of 96 degree sugar at a tons cane per tons sugar (TC/TS) ratio of 10.73. When compared to the corresponding period of the 1999/2000 crop, these indices represent a 12 percent decrease in the quantity of sugar cane ground, a 32 percent decline in raw sugar production and a decline in TC/TS ratio of 1.10. These seemingly sluggish performance measures of the 2000/2001 sugar cane crop are marginally superior to those of the 1998/1999 crop. Accounting for losses due to illicit cane fires and assuming continued favorable weather conditions and the absence of industrial actions, the 2000/2001 sugar cane crop is expected to produce approximately 200,000 MT of 96 degree sugar, 7 percent less than last year's crop and 33 percent below the industry's viability target. Under the influence of the GOJ's proposed J$ 3 billion investment initiative to prepare the sugar industry for divestment, sugar production is expected to increase gradually between 2002 and 2004. Against this background, sugar production for the 2001/2002 crop is expected to be around 215,000 MT, 4 percent short of the desired average annual increase of 12.5percent.

For the 1999/2000 cane crop, total production of 96 degree sugar increased by 6 percent over the previous crop to 216,387 MT despite a 12 percent decline in the volume of sugar cane delivered to the factories. The more than proportionate increase in sugar production is due primarily to improvement in cane quality as reflected by an improved TC/TS ratio from 11.32 in 1998/1999 to 9.36, the best recorded in the industry since 1965. The higher cane quality is attributed almost entirely to the influence of favorable weather conditions during the planting and harvesting periods. The cropping time of 224 days was not significantly different from the 219 days during the 1998/1999 crop but was almost two months in excess of the industry's 24 week target.

With respect to the distribution of sugar cane production between estates and farmers, estates accounted for 55 percent of total sugar cane production during the 1999/2000 crop, an increase of 5 percent over the 1998/1999 crop. Despite a decline in the average industry productivity from 61.43

tons of cane per hectare (Tc/ha) in 1998/1999 to 52.95 Tc/ha in 1999/2000 (22 Tc/ha below the industry's 75 Tc/ha viability target), the ton sugar per hectare (Ts/ha) increased from 5.42 to 5.66. The lower Tc/ha resulted from drought conditions during the growing periods and poor agronomic practices. The higher Ts/ha resulted from the improved cane quality.

Another factor which consistently affects the industry's efficiency is the high levels of factory down-time. While non-factory down-time shows slight improvement, factory down-time continues to increase. Actual grinding time within the industry increased from 60.47 percent in 1998/1999 to 66.58 percent in 1999/2000 as a result of a significant reduction in down-time due to non-factory causes. Non-factory stoppages declined from 25.12 percent in 1998/1999 to 18.75 percent in 1999/2000. However, factory stoppages increased from 14.42 percent to 14.67percent. The two main contributors to factory stoppages; mechanical stoppages and lack of cane supplied to the factory has varied only slightly over the past two years. The industry's five- year rehabilitation program should address these factors.

Crop Area

Acreage under sugar cane cultivation varies from year to year within the narrow range of 40,000 to 46,000 hectares of which 82 to 93 percent is usually harvested. For the current crop, 43,000 hectares of land is estimated to be under sugar cane cultivation. During the 1999/2000 crop, 42,000 hectares of land was planted with sugar cane of which 39, 000 hectares were harvested. Of the harvested acreage, farmers and estates accounted for an estimated 17,550 hectares and 21,450 hectares, respectively. Total acreage under sugar cane cultivation is expected to remain stable over the next three to five years. There is no indication that any significant portion of land will be diverted from sugar cane production to any alternative investment activity. Diversification out of sugar cane production was not proposed in the industry's five year development plan.

The industry needs to replant with higher yielding varieties in order to increase production and lower cost. The Sugar Industry Research Institute continues to research and commercialize high yielding cane varieties. Replanting, especially by small farmers, remains inadequate. Cost is the primary deterrent.

Crop Quality

Sugar cane quality, as measured by the Jamaica Recoverable Cane Sugar (JRCS) and the TC/TS ratio, shows significant improvement during the 1999/2000 crop. In fact, the industry boasts the highest cane quality in 35 years. The JRCS increased by 1.70 units from 9.52 in 1998/1999 to 11.32 in 1999/2000. The exceptional quality of the 1999/2000 crop is attributed to favorable weather conditions during the harvesting period, the relatively steady flow of cane to the factory, and the absence of industrial actions.

Production Policy

Faced with a high cost, low productivity and generally inefficient sugar industry, the GOJ and sugar industry officials are considering major policy directions to bring the ailing sugar industry to globally competitive levels. Investment priorities and objectives are outlined in the industry's five year development plan which was drafted in 1999/2000.

The major issue surrounding sugar production in Jamaica continues to be the high cost of production resulting from the many inefficiencies from field to factory and beyond. The cost of production currently stands at US$0.30/lb. According to the industry's five year plan, if the sugar industry is to attain viability it needs to: reduce production cost to US$0.18/lb, produce at least 300,000 MT of 96 degree sugar, maintain 42,000 hectares of land under sugar cane cultivation, harvest 95 percent of the acreage under production, achieve productivity of at least 75 Tc/ha, achieve Tc/Ts ratio and JRCS of 10.5 and 10.4 respectively and limit cropping time to 24 weeks.

The five year development plan further identified industry problems such as inefficient factory operations, low cane production and yields, poor cane quality, low productivity, low employee morale, low marginal productivity of labor, declining sugar prices, increasing debt burden, high interest rates and untimely financing of inputs. During the first year of the industry's five year plan, the 2000/2001 crop, has not shown any achievement of the outlined objectives.

Consumption

Since the 1990's, Jamaica's annual sugar consumption ranged between 118,000 MT and 137,000 MT. Over the last five years, sugar consumption has been relatively stable at approximately 124,000 MT per year. While total sugar consumption is expected to remain stable for another few years, consumption of refined sugar, which is used mostly for manufacturing purposes, is expected to decline due to government policy and decline in the manufacturing sector. The proposed amendments to the GOJ's refined sugar importation policy aimed at stemming the entry of duty free refined sugar to the consumer market is expected to curtail the consumption of refined sugar at the retail level by 8,000 MT to 10,000 MT during MY 2001/2002. Due to high production cost, and high interest rates, sugar based products manufactured in Jamaica are higher priced and less competitive in the price sensitive Jamaican market than their imported counterparts. As imported products continue to dominate the domestic market, the production of sugar based products and the resulting local consumption of refined sugar by the manufacturing sector are expected to decline in the medium to long-term.

At the retail level, sugar consumption remains stable notwithstanding the increased emphasis on healthy living. The expected decline in the consumption of refined sugar resulting from the GOJ's policy amendment will be offset by an increase in the consumption of raw sugar at the retail level. Artificial sweeteners are used only by a minority and mostly for health reasons, i.e. diabetes. Sugar prices have remained fairly stable. This has helped to maintain consumption levels.

Trade

The sugar industry continues to satisfy its quota allocation while importing both raw and refined sugar to meet domestic demand. The EU quota remains at 127,000 MT with an additional 50,000 MT under the Special Protocol Sugar arrangement. The US tariff Rate Quota allocation is especially prized by Jamaica's sugar industry.

During the 1999/2000 crop, 180,481 MT of raw sugar was exported from Jamaica to the United Kingdom, Portugal and the United states compared to the 177,522 MT exported during 1998/1999. Exports to the United Kingdom composed of 134,167 MT of Protocol sugar and 4,470 MT of Special Preferential Sugar (SPS) at a value of US$ 67.4 million and US$ 1.9 million, respectively. Approximately 30,220 MT of SPS was exported to Portugal at a value of US$ 12.237 million. Under the USA Tariff Rate Quota (TRQ) system, 11,584 MT of sugar was exported to the United States at a value of US$ 2.3 million.

Despite the 1.67 percent increase in the volume of sugar exported, the 1999/2000 crop realized earnings of US$ 83.801 million, 12.52 percent less than the US$ 95.794 million earned from the previous crop. The drastic reduction in export earnings is due in part to the depreciation of the Euro vis-a-vis the US dollar.

On the import side, raw sugar imports continue at high levels as local sugar production cannot meet both domestic and export market requirements. During the 1999/2000 crop, raw sugar was imported by the Sugar Industry Authority from Guyana, Nicaragua, Belize and Colombia. Of the 27,878 MT of raw sugar imported Colombia, Belize and Guyana accounted for 22 percent, 26 percent and 21.5 percent, respectively. Assuming successful implementation of the GOJ's policy to bring the sugar industry to its predetermined profitability level, raw sugar import could see a gradual decline between crop year 2001/2002 and 2004/2005.

Jamaica will continue to import refined sugar as long as the export markets remain priority and local production falls short of the 300,000 MT target set by the industry. The real influencing factor is the extent of growth in the manufacturing sector, specifically the consumer goods sub-sector. The United States is the main supplier of refined sugar. Other suppliers include Columbia, EU, Mexico and Brazil.

In the domestic market, based on the improved cane quality manufacturers and growers were paid a slightly higher price of J$ 19,107 per ton of sugar during the 1999/2000 crop compared to J$ 19,098 for the 1998/1999 crop. The current crop is expected to attract a price of J$ 18,000 per ton. The industry retains its agreed payment formula of 62 percent and 38 percent of proceeds to growers and manufacturers, respectively.

Stocks

The liberalization of refined sugar importation allows the Jamaica Cane Products Sales (JCPS), private brokers and manufacturers to import and hold stocks of refined sugar. Raw sugar stock is held exclusively by the JCPS. As of October 31, 2000 the JCPS held 7,544.58 MT of raw sugar and 821.28 MT of refined. Total sugar stock was estimated to be 10,000 MT indicating that approximately 1,634 MT of refined sugar was held by private importers. With a relative improvement in the stabilization of the exchange rate, private importers are expected to commit less of their working capital to large volumes of sugar inventory. Within the next few years sugar stocks are expected to be between of 5000 MT and 6000 MT.

Policy

The GOJ has made public its intention to re-privatize the sugar industry within the next five years. After an unsuccessful divestment in 1994/1995 the GOJ re-acquired the industry in 1998. The GOJ's decision to assist the industry was based on the fact that the industry is a major foreign exchange earner, provides employment to approximately 40,000 people, and benefits from preferential trading agreements. However, faced with increasing trade deficit, high external debt burden, and the negative trade implications of the EU's Everything but Arms (EBA) initiative, the GOJ has finally decided that the industry cannot exist in its present high cost - low productivity status. Subsequently, a committee consisting of representatives from financial institutions, ministries of finance, trade and agriculture and sugar industry officials was mandated to draft a plan for the future of the industry. While diversification out of sugar production is a likely and well considered option, re-privatization after a J$ 3 billion investment is the first and unanimously preferred proposal.

The government has proposed an adjustment to its 1994 liberalized refined sugar importation policy. Prior to 1994, the Jamaica Cane Products Sales (JCPS), the central marketing agency for the sugar industry, maintained monopoly power in the importation and distribution of refined sugar. A benchmark price regime for the determination of duties on imported refined sugar was adopted from 1994 to 1999. The benchmark price regime identified a price (related to refined sugar prices in the major international markets) below which any refined sugar entering the island would be subject to an Additional Stamp Duty to equate it to this price. Due to international price volatility (which makes it difficult to maintain a reasonable benchmark price) and deliberate over-invoicing by importers, the system was replaced with a two-tiered method of tariff determination. The two-tiered tariff system accommodated duty-free entry of refined sugar for manufacturing purposes while refined sugar for the consumer market (retail) attracted a 40 percent Common External Tariff (CET) plus a 63 percent stamp duty. Due to entry of duty-free sugar (imported for manufacturing) to the consumer market and the resulting disruption in domestic demand for brown sugar, the government has proposed an amendment to its importation policy. The new proposal, still being debated, will grant import licenses to large manufacturers and the JCPS. Small and medium manufacturers will source refined sugar from an exclusive broker, the JCPS, at duty-free rate plus a marginal mark-up. Retail distribution of refined sugar will be the responsibility of the JCPS.