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Colombia

Sugar Annual

Colombian Sugar Exports Will Decline and Import Duty is Reduced

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Report Highlights:
Colombian sugar production is forecast to decline to 2.25 million tons in MY 2010/2011 from the 2.3 million tons reached in MY 2009/2010. Sugar exports are projected to decline to 740,000 tons in MY 2010/2011 after increasing to 952,000 tons in 2009/2010 MY. Recently 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 2010/2011 down 43,000 tons from a year ago due the expected higher rainfall which reduce the sucrose content into the sugarcane. The area available for sugarcane in the Cauca river valley is virtually all planted and the area expansion is marginal. Although high international sugar prices could stimulate sugarcane area expansion, the strong rainfall can prevent or delay planting decisions. Sugar exports reached 952,000 tons in MY 2009/2010 and are projected to decrease to 740,000 tons in MY 2010/2011. 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 2009/2010, sugar production reached 2.3 million tons, just above 16,000 tons from a year before. Sugar production is forecast to decline in MY 2010/2011 to 2.25 million tons, which may show a small increase if weather conditions improve. 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, given that virtually all the area available for sugarcane is already planted.

Colombia harvests sugar cane all 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 area planted in this valley with sugarcane totals 208,000 hectares, which is virtually considered all of the total land available for sugarcane under efficient production. Area increased in 2009 only 2,500 hectares from a year before and 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 sugar producer in the world with 14.6 tons of sugar per hectare followed by Australia and Brazil, 11.5 and 9.5 tons of sugar per hectare respectively.

The sugar industry is actually a cluster around sugar; 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. Ethanol production began to compete with sugar production in late 2005 and ethanol production reached capacity in 2007 due to the limited number of ethanol plants. Since then, increases in ethanol production have not had a large impact on sugar production due to yield gains in ethanol production. In 2011 a new ethanol facility with 100,000 liters per day capacity will enter into operation.

Colombia is the second largest **non-centrifugal sugar (panela)** producer in the world after India. In 2009, Colombian sugarcane production area harvested for panela was 220,000 hectares out of 244,000 hectares planted. Production reached 1.4 million tons of panela. Post expects no changes in panela's production for 2010. Panela production is distributed among 70,000 farms, and employs approximately 120,000 subsistence farmers located throughout the country.

A new project has been proposed to use sugarcane used for panela for ethanol production, but it currently faces some problems due to the difficulty in reaching economies of scale, since most producers of panela are small scale producers, and the variable topography which also makes mechanized production difficult. However, the Government is supporting two small pilot projects for ethanol production in panela-producing regions to evaluate the potential of producing ethanol versus panela.

According to the Independent Sugarcane Producer's Association, many producers are unwilling to shift contracts because the price of sugarcane for panela is much higher than the prices for sugarcane used for ethanol production.

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. Colombian sugar for exporting reduced when ethanol production entered into the sugar cluster. Ethanol production diverted sugar allocation from sugar for exports to ethanol production. In MY 2010/2011 a 212,000 ton decrease in sugar exports is expected. Colombian sugar producers continue their efforts in order to increase markets for exports of higher priced refined sugar. In MY 2009/2010, 70 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 100,000 tons, followed by the United Stated that become the second largest market for Colombian sugar with 82,300 tons in MY 2008/2009. Chile represented 17 percent of total Colombian exports and the United States 15 percent in MY 2008/09. Exports to the United States rebound after two consecutive declining years. The sugar exported to the United States is 3 times above the sugar quota assigned for fiscal year 2008.

Colombia's sugar imports increased to 185,000 tons in MY 2009/2010, and it is forecasted to reach 190,000 ton in MY 2010/2011 as a response to high international prices that could tighten the sugarcane supply and favor exports of Colombian sugar. Bolivia, Brazil and Ecuador supplied 93 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:

The government does not have programs or incentives for sugar mills to keep inventories. Private sector sugar stocks/working inventories are projected to reach 321,000 tons in MY 2009/2010, which represents 1.6 months of total demand and more 5 months of exports. In MY 2010/2011, it is forecast inventories to decline to 196,000 tons which will cover 1.5 months of the projected local consumption and 3 months of exports.

Policy:

Tariff Modification

In November 5, 2010 the Colombian Government issued the decree 4114 modifying the import tariff for at least a one third of the products list in the Colombian Tariff Schedule. The import duty on sugar and sugar products reduced by 5 percent from its previous duty. 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 to 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 had lowered prices at a point that would had made some sugar mills went 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. At 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 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 20 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 2010 to March 2011 as follows, which is an increase for the second 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*	
	2009/10	**2010/11**	**2009/10**	**2010/11**
Raw Sugar	277	313	345	388
Refined Sugar	374	408	452	490
Source: Andean Community				

For the last two weeks of November 2010, reference prices for raw and refined sugar were set at $654/ton and $745/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. 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 the 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 17.6 percent for raw and refined sugar; Paraguay 13.2 percent on raw and refined sugar; and Uruguay 16 percent on raw and refined sugar.

Marketing:

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 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, to which local transportation costs and duties are added.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Sep 2008		Market Year Begin: Sep 2009		Market Year Begin: Sep 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	170	170	416	416	321	297
Beet Sugar Production	0	0	0		0	0
Cane Sugar Production	2,277	2,277	2,200	2,293	2,200	2,250
Total Sugar Production	2,277	2,277	2,200	2,293	2,200	2,250

Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	139	139	40	185	40	190
Total Imports	139	139	40	185	40	190
Total Supply	2,586	2,586	2,656	2,894	2,561	2,737
Raw Exports	181	181	200	200	200	200
Refined Exp.(Raw Val)	404	404	530	752	540	540
Total Exports	585	585	730	952	740	740
Human Dom. Consumption	1,580	1,580	1,600	1,640	1,620	1,630
Other Disappearance	5	5	5	5	5	5
Total Use	1,585	1,585	1,605	1,645	1,625	1,635
Ending Stocks	416	416	321	297	196	362
Total Distribution	2,586	2,586	2,656	2,894	2,561	2,737

Author Defined: