

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ecuador

Sugar Annual

2012 Ecuador Sugar Policy and Production, Consumption and Trade Forecast

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Report Highlights:

Ecuador's sugar production will increase in MY2011/13 by 7 percent to 605,000 MT raw sugar value. This is due mainly to increased area under production and the adoption of higher-yield varieties. Ecuador will likely decrease its current import and export levels of refined sugars in MY2012/13. Ecuadorian producers expect exports of raw sugar to the United States to increase.

Executive Summary:

Sugar cane production (centrifugal) for Marketing Year (MY) 2012/13 (June 2012/May 2013) will increase by approximately 7 percent mainly due to increases in the area planted and newer varieties coming into production. Production for MY 2012/13 is forecast at 605,000 MT raw sugar value (RSV). Sugar consumption has increased slightly on a per capita basis, between 35 and 37 kg of refined sugar.

Total official exports increased from 12,000 MT RSV in MY 2010/11 to 18,000 MT RSV in MY 2011/12. The increase was due to an increase in the U.S. sugar quota. In MY 2010/11, Ecuador increased its imports of refined sugar to 85,000 MT RSV. Ecuador is self-sufficient in refined sugar production. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ, and it is usually the first sugar that is commercialized after the harvest in June or July. After that, mills produce refined sugar for local consumption. Ecuador will decrease its current import and export levels of refined sugars in MY2012/13. Ecuadorian producers expect raw sugar exports to the United States to increase.

Sugar producers have considerably increased stocks in recent years in an effort to be hedged against high world prices and especially high prices in neighboring countries Colombia and Peru.

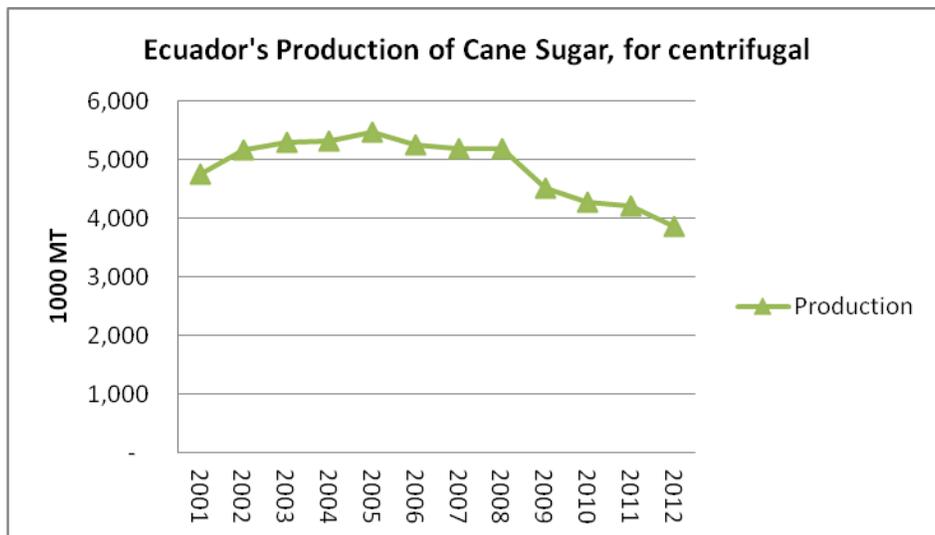
Commodities:

Sugar Cane for Centrifugal

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Ecuador	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		75		70		65
Area Harvested		60		55		51
Production		4,275		4,125		3,850
Total Supply		4,275		4,125		3,850
Utilization for Sugar		4,275		4,125		3,850
Utilization for Alcohol		0		0		0
Total Utilization		4,275		4,125		3,850

1000 HA, 1000 MT



Commodities:

Sugar, Centrifugal

Production:

Ecuador's sugar production increased by about 4.8 percent from MY 2010/11 (539,280 MT) to MY 2011/12 (564,960 MT). Good weather conditions were the cause of the increase in production.

In MY 2011/12, 78,000 ha were planted with sugarcane. Byproducts of processing are used for the production of alcohol and molasses and small amounts of sugarcane juice are used to produce *panela* (solid blocks made from boiling and evaporation). Harvested area for sugarcane is expected to increase by 1,000 ha to 79,000 ha in MY2012/13.

Three factors are expected to impact raw sugar production in MY 2012/13: slight increases in area planted (1,000 ha); improved varieties coming into production; and excessive rain at the beginning of the planting season will likely result in decreased yields. A decrease in sugar production of around 7 percent with an estimated production of 604,550 MT is expected. In the past, depending on international prices for sugar-based alcohols and Ecuadorian policies regarding biofuels, there have been shifts in area planted for the purpose alcohol production.

Approximately 90 percent of sugar cane production takes place in the coastal region of Ecuador, in the provinces of Guayas and Cañar. These areas experience annual rainfalls of approximately 1000-1100 inches, of which 800 inches is usually spread between January-May. These lands are traditionally perceived as low-cost production zones because of the low cost of local labor. However, annual government-mandated minimum-wage increases and higher fertilizer prices are increasing the cost of production. In addition, irregular weather patterns have started to affect productions areas.

In December 2009, prices increased by a high percentage in response to higher production costs. Prices have also kept up with higher international sugar prices. According to industry, this price adjustment was necessary to compensate for several years of low prices, and to make up for increased production costs (\$38 per 50 kilo bag is being charged by the sugar mill, January 2012, while in 2010 the price at the mill was about \$26 per bag) in the last four years, and other labor costs, including wage increases and mandatory social security payments to farm workers. The wholesale price of a 50-kilo bag has increased from an average of \$26.5 in 2007 to \$43 in 2011. Around 20,000 workers are employed by Ecuador's three major sugar mills during the harvest season. Sugarcane prices paid to the farmer increased 12.12 percent from \$24.75 per metric ton in June 2010 to \$27.75 in June 2011, mainly in response to higher labor costs. From 2009 to 2012, for example, the monthly wage of a farm worker increased from \$218 to \$292, an increase of 34 percent. The price at the mill increased from \$33 per bag in 2010 to an average of \$36 in 2011. After the December 2011 increase, the price of a bag sold by the sugar mill was \$38 in January 2012, up from \$35 in January 2011. The wholesale price of a 50-kilo bag increased from an average of \$39.50 in 2010 to \$43.00 in 2011, accounting for an 8.86 percent increase over that one-year period. The national average retail price of a kilogram of sugar was \$0.99 in 2011. Overall sugar prices experienced a less steep increase between 2010 and 2011 than between 2009 and 2010.

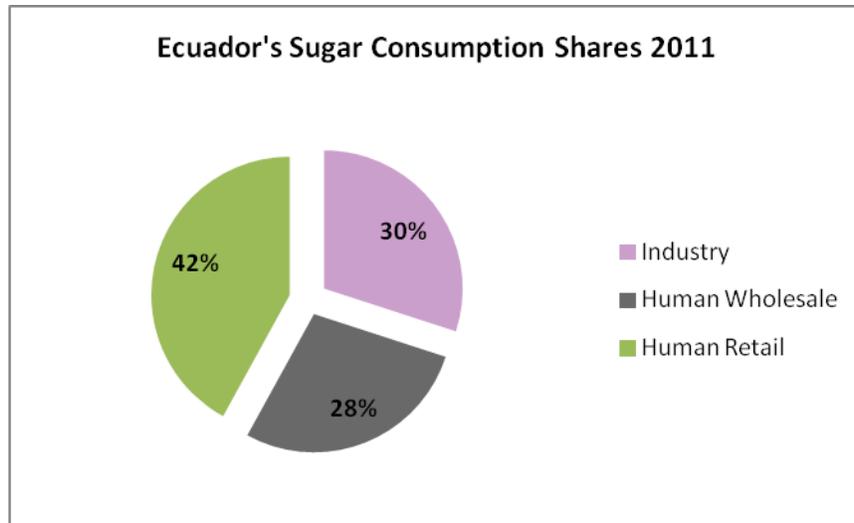
Consumption:

Approximately 70 percent of Ecuador's sugar consumption is for human use in the form of white, brown or specialty sugars, while the remaining 30 percent is for industrial utilization. Per capita consumption of cane sugar, including sugar for industrial purposes, has increased in the last few years, primarily in response to economic growth, and it is believed that it ranges between 35 and 37 kg of refined sugar. Sugar consumption is affected mainly by price rather than a change in sweetener preferences. Assuming an Ecuadorian population of 14,759 million at the end 2012 (based on a recent national census) and a consumption level of 36.6 Kg of refined sugar, Post estimates that domestic consumption of raw sugar will be about 577,800 MT in MY 2012/13.

Until five years ago, there was a trend towards supplying high-quality fine sugars to producers of high-quality confectionary products. Ecuadorian sugar mills, aware of this niche market for specialty sugars, began producing these products for the local industry. Their efforts proved very costly and bow firms requiring these highly refined sugars import them from Colombia. The soft drink industry also requires a better-than-regular quality sugar for carbonated drinks, juices, and other sweet drinks. Sugar mills have been able to satisfy the demand of the soft drink industry by providing a whiter type of sugar, of similar quality to that widely available in the market, but simply whiter due to an additional bleaching process. Sugar mills produce this type of sugar due to its market share; about 30 percent of sugar production in Ecuador is destined to the soft drink and confectionary industry. The extra bleaching is necessary to avoid affecting the coloration of the end products.

Modernization of the retail sector has continued to follow changes in consumer preferences regarding space limitations in Ecuadorian homes due to household incomes combined with a decrease in average family size. This has shifted demand towards smaller and lighter packaging practices. Nevertheless, small retailers make up about 60 percent of sugar sales in bags of 1, 2, 5 or 10 kilos. The remaining 40 percent of sugar for direct human consumption is marketed through wholesalers in 50-Kg bags. Sugar mills are constantly packaging and marketing their products in order to differentiate themselves from other producers.

Sugar producers have considerably increased their stocks to be hedged against high world prices and especially high prices in neighboring countries Colombia and Peru whose currencies have appreciated considerably in recent years compared to Ecuador's U.S. dollar.



Trade:

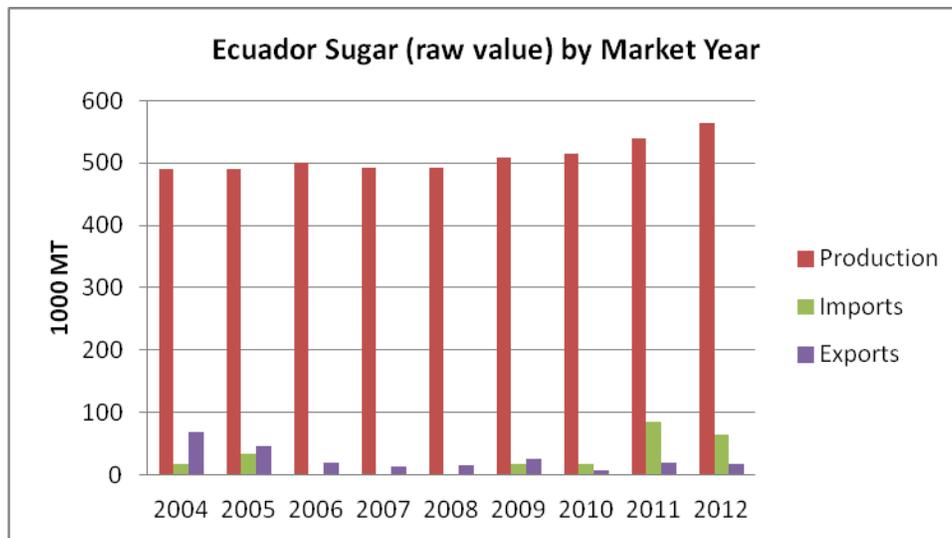
Ecuador is self-sufficient in the production of refined sugar for domestic consumption. Surpluses during the harvest season are sent to the United States and neighboring countries. Total sugar exports for MY 2011/12 have reached 19,000 MT RSV. For MY 2012/13, Ecuador's exports are forecast at 16,000 MT RSV plus an additional 27,000 MT RSV through informal border trade. Ecuadorian mainly exports raw sugar for the United States; however, depending on international prices and the price of sugar in Colombia and Peru, refined sugar is sent to these two neighboring countries. In 2011, no exports of sugar to Colombia have been officially recorded. However, on occasion, these export flows are smuggled across borders and not included in official trade statistics. Post estimates that Ecuador sent about 25,000 MT RSV to Colombia in MY 2011/12. The statistics shown in the table below do not take into account informal border exports and therefore a negative trade balance is shown. No imports from Peru were reported in 2011. The increase in exports to the United States corresponds to an increase in the U.S. sugar quota for Ecuadorian exports between 2010 and 2011. Increased imports from Colombia correspond to overall more regular and normal trade relations between Ecuador and its neighbor as a consequence of reestablished diplomatic relations in the last two years.

During the harvest season, Ecuadorian mills export surpluses in similar amounts to what is imported, mainly to the United States market. Ecuador historically imports about 15,000 MT per year during the months when sugar is scarce (last quarter of each calendar year until the first two weeks of April the following year); however, imports have increased to about 40,000 MT in recent years because of local producers' efforts to take advantage of differences in world prices. Sugar imports face zero tariffs.

Official Exports and Imports of Sugar Calendar Year – Metric Tons

Calendar Year	2010	2011
Total Exports	8,130	19,412
United States	7,117	19,022
Other	1,013	390
Total Imports	11,157	62,758
Colombia	6,816	41,546
Honduras		9,848
Nicaragua		8,636
Guatemala	21	2,002
Peru	4,299	
Other	20	726
BALANCE (TE-TI)	-3,027	-43,346

In Calendar Year CY 2011, Ecuador increased its sugar imports by 41 percent, from 44,000 MT RSV in 2010 to 62,060 MT RSV in 2011. Sixty-six percent of 2011's imports originated in Colombia.



In 2011, the Government of Ecuador continued to allow reduced imports of highly refined sugars, such as Incumsa 45, mainly for a single confectionary factory that exports the end product. In 2006 Ecuadorian mills started supplying the soft drink industry with an acceptable substitute for highly refined sugars, a whiter type of refined sugar, which drastically reduced imports of this type of sugar from neighboring Colombia.

Policy:

Sugar is considered a staple product by the Government of Ecuador and it is used in the basic basket of goods to calculate inflation indexes. Because of its social significance, sugar prices used to be stable; however, in the past four years Ecuadorian’s income levels have matched higher production costs and producers’ pledges to increase the price of domestic sugar.

In general, there is no evidence that an official government-set price is mandated for sugar products. There is, however, a minimum price that must be paid per MT of sugarcane to farmers. Sugar farmers and millers receive neither a domestic nor an export subsidy. As with producers of other crops, sugarcane growers can obtain loans from Ecuador’s Agricultural Development Bank at preferential interest rates.

The Government of Ecuador allows duty-free imports from fellow Community of Andean Nations (CAN) countries. Imports originating in countries other than CAN are assessed a 15 percent base tariff, and a variable “price band” levy. The variable levy for white sugar (17019900) is currently assessed at - 15 percent and the current final tariff for sugar, raw and white, is 0 percent. Sugar imports have a WTO-approved bound tariff of 45 percent, which includes any price band-related duties. Because of the U.S. TRQ, sugar mills have an agreement with the Government of Ecuador to continue supplying sugar to the United States in order to not jeopardize Ecuador’s quota allocation. Sugar mills and the Government of Ecuador, to some extent, see the U.S. market as a potential destination for Ecuadorian surpluses. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ. Raw sugar exports are shipped between June and September.

Although sugar was a part of MERCOSUR negotiations, Ecuador excluded raw and white sugar from the 15-year tariff liberalization process that started in April 2005. There is a special clause by which sugar can start a 15-year liberalization process only if and when Ecuador agrees to do so with each MERCOSUR partner. Even after tariff liberalization, sugar imports would continue to be charged the variable levy under the price band system. To date, Ecuador and its MERCOSUR partners have not initiated negotiations on sugar.

As an alternative to fuels produced from crude oil, the government of Ecuador through the Ministry of Agriculture is currently executing a 1500 ha pilot project to produce ethanol from sugarcane. Approximately 20,000 liters of ethanol per day is currently being produced. A blend of 5 percent ethanol and 95 percent gasoline is distributed for automotive use at government-owned gas stations in Ecuador’s largest city, Guayaquil. The pilot project has been extended at the same levels for one more year through the end of 2012 and will likely become a permanent project and expand.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Ecuador	2010/2011	2011/2012	2012/2013
	Market Year Begin: Jun 2010	Market Year Begin: Jun 2011	Market Year Begin: Jun 2012

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	151	151	158	222		263
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	490	539	466	565		605
Total Sugar Production	490	539	466	565		605
Raw Imports	0	0	2	0		0
Refined Imp.(Raw Val)	33	85	30	65		43
Total Imports	33	85	32	65		43
Total Supply	674	775	656	852		911
Raw Exports	12	19	22	18		18
Refined Exp.(Raw Val)	7	1	8	0		0
Total Exports	19	20	30	18		18
Human Dom. Consumption	497	533	500	571		578
Other Disappearance	0	0	0	0		0
Total Use	497	533	500	571		578
Ending Stocks	158	222	126	263		315
Total Distribution	674	775	656	852		911
1000 MT						

Prices Sugar
Country Ecuador

Month	Wholesale Prices			Retail Prices		
	\$ per kg			\$ per kg		
	2009	2010	2011	2009	2010	2011
Jan	0.58	0.72	0.84	0.70	0.80	0.93
Feb	0.58	0.73	0.85	0.70	0.81	0.94
Mar	0.58	0.74	0.85	0.70	0.84	0.96
Apr	0.59	0.80	0.88	0.70	0.94	1.03
May	0.59	0.80	0.87	0.71	0.93	1.01
Jun	0.59	0.74	0.89	0.70	0.80	0.96
Jul	0.59	0.82	0.88	0.70	0.95	1.02
Aug	0.59	0.83	0.87	0.70	0.97	1.01
Sep	0.58	0.84	0.87	0.70	0.98	1.01
Oct	0.58	0.83	0.86	0.71	0.97	1.01
Nov	0.59	0.83	0.86	0.71	0.96	0.99
Dec	0.60	0.84	0.86	0.74	0.97	1.00
Average	0.59	0.79	0.86	0.71	0.91	0.99