

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Ecuador**

### **Sugar Annual**

#### **Ecuadorian Sugar Consumption Continues to Decline**

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**Report Highlights:**

Sugar production in marketing year (MY) 2018/19 decreased slightly compared to MY 2017/18 levels. Domestic consumption is forecast to continue to decline at a small, steady pace in the coming years due to shifting consumption patterns. As sugar supply and demand find a new equilibrium, ethanol production appears to be helping absorbing some excess sugar supply.

## **Executive Summary:**

Ecuador's sugar production in marketing year (MY) 2018/19 is estimated at 575,000 metric tons (MT), down 13,000 MT or two percent from MY 2017/18. Production in MY 2019/20 is forecast to further decrease to 550,000 MT, down 25,000 MT or four percent from the MY 2018/19 estimate. We attribute the decrease in sugar production to an increase in the amount of sugar cane destined for ethanol production and to a decrease in per capita human consumption of sugar.

Total domestic consumption of sugar in MY 2018/19 is estimated at 587,000 MT, down 6,000 MT or one percent from MY 2017/18. This can be attributed to decreased consumption due to domestic nutritional food labeling and fiscal policies. Total domestic consumption in MY 2019/20 is forecast to further decrease to 580,000 MT, down 7,000 MT or one percent from the MY 2018/19 estimate.

Sugar exports in MY 2018/19 are estimated at 3,000 MT, a very significant decrease from the MY 2017/18 level of 85,000 MT. Exports in MY 2019/20 are forecast to increase to 20,000 MT. In MY 2017/18, Ecuador exported U.S. quotas for both fiscal years (FY) 2017 and 2018. While Ecuador is largely self-sufficient in raw sugar production, the country exports sugar during the second half of the calendar year (sugarcane milling season) and imports sugar during the first half of the calendar year when there is no domestic production. Imports range between 20,000 and 50,000 MT. In MY 2018/19 Ecuador imported an estimated 47,000 MT. Sugar imports in MY 2019/20 are forecast to decrease to 20,000 MT due to a small but steady decline in domestic consumption over the last few years, making imports less necessary.

Sugar Cane for Centrifugal Market Begin Year	2017/2018		2018/2019		2019/2020	
	Jun 2017		Jun 2018		Jun 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Area Planted	86	86	88	89	0	95
Area Harvested	79	79	82	87	0	95
Production	7001	7001	7500	8100	0	8500
Total Supply	7001	7001	7500	8100	0	8500
Utilization for Sugar	6251	6251	6500	6600	0	6500
Utilization for Alcohol	750	750	1000	1500	0	2000
Total Utilization	7001	7001	7500	8100	0	8500

(1000 HA) ,(1000 MT)

### Commodities – Sugar, Centrifugal

Sugar, Centrifugal Market Begin Year	2017/2018		2018/2019		2019/2020	
	May 2017		May 2018		May 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Beginning Stocks	395	395	388	388	0	420
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	588	588	570	575	0	550
Total Sugar Production	588	588	570	575	0	550
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	83	83	25	47	0	20
Total Imports	83	83	25	47	0	20
Total Supply	1066	1066	983	1010	0	990
Raw Exports	20	20	25	3	0	20
Refined Exp.(Raw Val)	65	65	40	0	0	0
Total Exports	85	85	65	3	0	20
Human Dom. Consumption	593	593	550	587	0	580
Other Disappearance	0	0	0	0	0	0
Total Use	593	593	550	587	0	580
Ending Stocks	388	388	368	420	0	390
Total Distribution	1066	1066	983	1010	0	990

(1000 MT)

### Ecuador, Wholesale and Retail Sugar Prices, 2016-18

Month/Year	Wholesale Price	Retail Price
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	\$ per kg			\$ per kg		
	2016	2017	2018	2016	2017	2018
January	0.75	0.70	0.67	1.02	0.98	0.99
February	0.72	0.71	0.65	1.01	0.98	0.97
March	0.72	0.71	0.66	1.01	0.98	0.98
April	0.72	0.69	0.66	1.01	0.98	0.98
May	0.73	0.71	0.65	1.01	0.98	0.98
June	0.73	0.71	0.65	1.00	0.98	0.97
July	0.73	0.70	0.64	1.00	0.99	0.96
August	0.73	0.70	0.66	1.00	0.98	0.97
September	0.73	0.69	0.65	0.99	0.98	0.98
October	0.73	0.69	0.65	0.99	0.98	0.98
November	0.73	0.68	0.65	0.99	0.98	0.98
December	0.73	0.68	0.66	0.99	0.97	0.96
<b>Average</b>	<b>0.73</b>	<b>0.70</b>	<b>0.65</b>	<b>1.00</b>	<b>0.98</b>	<b>0.98</b>

Source: Ministry of Agriculture, Statistics and Census, FAS Quito office research.

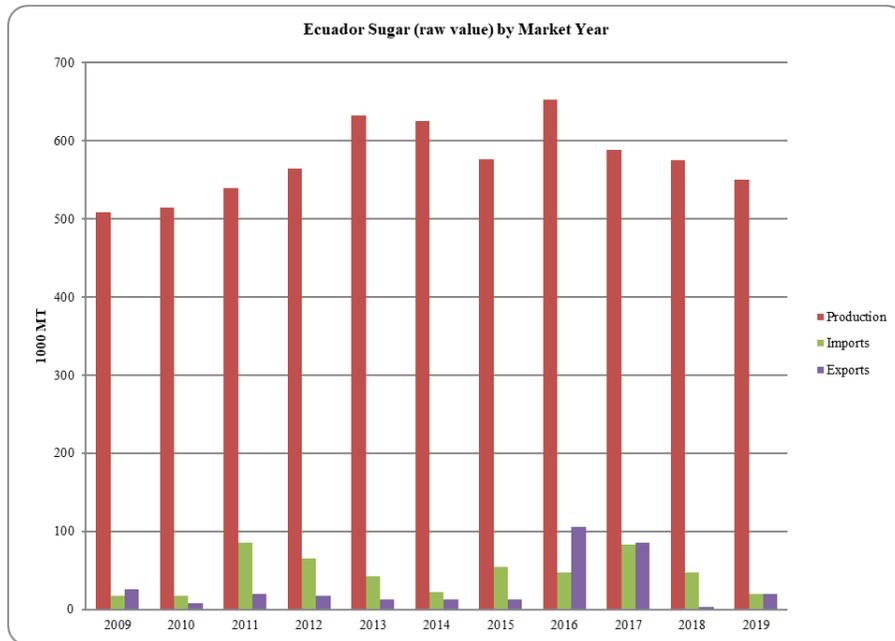
## Production:

Planted area for sugar cane in MY 2019/20 is forecast at 95,000 hectares, up 6,000 hectares or about seven percent higher than in MY 2018/19. Nearly 100 percent of the total planted area is expected to be harvested. Estimated yields are forecast at about 89 MT per hectare. FAS Quito estimates that up to 22,000 hectares might 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 production is the 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 2018/19 was higher than in MY 2017/18 due to increases in area harvested, increased demand for sugar cane for ethanol production, and favorable weather conditions. Total sugarcane production in MY 2018/19 is estimated at 8.1 million metric tons (MMT), up about one MMT or 16 percent from MY 2017/18 production. Utilization of sugarcane for sugar production, however, increased only by five percent from 6.3 MMT in MY 2017/18 to 6.6 MMT in MY 2018/19. The difference, about 1.5 MMT, is likely going to ethanol production.

Ecuador's sugar production MY 2018/19 is estimated at 575,000 MT, down 13,000 MT or two percent from MY 2017/18. Although sugar cane destined for sugar production was higher in MY 2018/19 (6.6 MMT), compared to MY 2017/18 (6.3 MMT), conversion rates were lower due to diminished sucrose content related to harvesting and agronomic conditions.

Sugar production in MY 2019/20 is forecast to further decrease to 550,000 MT, down 25,000 MT or four percent from the MY 2018/19 revised estimate. We attribute the decrease in sugar production to a drop in sugar consumption among Ecuador's population and an increase in sugarcane use in ethanol production. For more information, see FAS Quito's report, "[Ecuador's ethanol industry surges.](#)"



Source: FAS Quito office research.

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) 2018 ranged from \$0.67 per kilogram in January to \$0.64 per kilogram in July. The average price per kilogram was \$0.65 per kilogram at the mill gate in CY 2018. The retail price averaged roughly \$0.98 in CY 2018, the same value as in CY 2017. The spread between wholesale and retail prices is attributable to the intermediary’s markup, storage, distribution, and advertising costs.

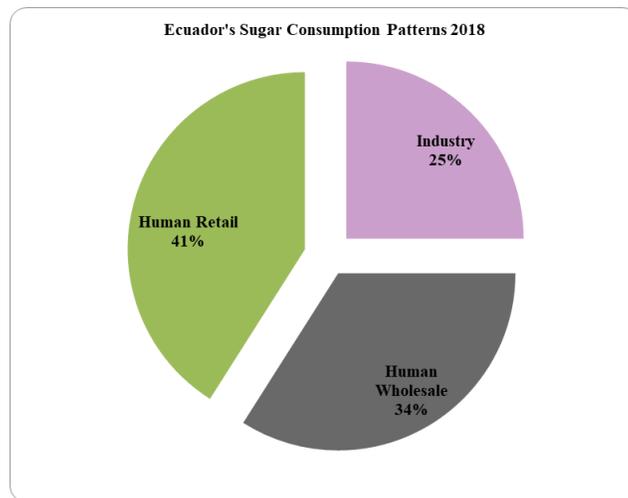
FAS Quito understands that farmers were paid \$32.20/MT for cut sugar cane in MY 2018/19. During the harvest season, some 13,000 low-skilled laborers are employed by the country’s three largest sugar mills.

**Consumption:**

FAS Quito estimates total domestic sugar consumption in MY 2018/19 at 587,000 MT, down 6,000 MT or one percent from MY 2017/18. This decrease is the result of domestic nutritional food labeling and fiscal policies (a sugar tax) that are 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. This aims to counter the decrease in demand for sugar for human consumption. Domestic consumption in MY 2019/20 is forecast to reach 580,000 MT, down 7,000 MT or one percent from the MY 2018/19 estimate. Ecuador’s population was estimated at 16,498,502 in July 2018 (U.S. Census Bureau). Per capita consumption of sugar is estimated at 35.57 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 percentage, 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 2018/19 at merely 3,000 MT, a drop of 82,000 MT from MY 2017/18. This large drop can be attributed to several factors. First, exports in MY 2017/18 were particularly high since Ecuador exported its U.S. tariff rate quotas (TRQs) for both fiscal year 2017 and 2018 in the second half of CY 2017. Second, depending on world prices, sugar is imported into Ecuador and then, if sugar prices recover, re-exported later in the year. This practice decreased in MY 2018/19, because Ecuador implemented safeguards against its fellow Andean Community members, reducing the trade of sugar between members (see policy section). Exports in MY 2019/20 are forecast to return to more regular levels, reaching 20,000 MT.

Ecuador is largely self-sufficient in raw sugar production. The country imports sugar towards the last quarter of the calendar year through the first half of April of the following year. Imports range between 20,000 MT and 50,000 MT per year. MY 2018/19 imports are estimated at 47,000 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 2019/20 are forecast to decrease to 20,000 MT, down 27,000 MT or 57 percent from MY 2018/19. The assumption for this fall in imports is the small but steady decline in domestic consumption over the last few years, making imports less necessary.

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. About ninety-nine percent 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. Ecuador exports heavily during its harvest season to reduce stocks. The Import/ Export Trade Matrixes for CY 2017 and CY 2018 are included below. The source of the data is the Global Trade Atlas 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 2017</b>	<b>CY 2018</b>
<b>Exports To:</b>		
Colombia	50,537	2,684
United States	16,010	5
Others	1,992	1,501
<b>TOTAL EXPORTS</b>	<b>68,539</b>	<b>4,190</b>
<b>Imports From:</b>		
Colombia	70,821	33,616
Guatemala	10,491	7,912
Peru	122	149
Others	50	67
<b>TOTAL IMPORTS</b>	<b>81,484</b>	<b>41,744</b>
<b>BALANCE (TE-TI)</b>	<b>-12,945</b>	<b>-37,554</b>

Note: Unrecorded cross-border trade is not included.

Source: Global Trade Atlas.

### **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 plus a six-month reserve (see below a photo of one of many of those storage facilities).



At the beginning of CY 2019, Ecuador shipped its FY 2019 TRQ to the United States. 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 two percent).

### **Trade (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 second half of March 2019 is set at 30 percent. Sugar imports have a World Trade Organization approved bound tariff rate of 45 percent, which includes price band-related duties.

### **Policy:**

Three policy changes have affected domestic consumption of sugar in Ecuador over the last few years. First, starting in 2014, a 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 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 quota. The quota 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.