

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

Required Report - public distribution

Date: 4/16/2013

GAIN Report Number: ES - 1

El Salvador

Sugar Annual

2013 Sugar Annual Report from El Salvador

Approved By:

Henry Schmick, Ag Counselor

Prepared By:

Miguel Herrera, Ag Specialist

Report Highlights:

Sugarcane planted area in 2012/2013 is slightly higher than in 2011/12 reaching 64,000 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year (MY) 2012, most sugar exports were destined for Canada, Chile, South Korea and to the U.S. re-export market. High international prices continue providing financial relief to the sugar sector. The sector continues to get tariff protection from the Government of El Salvador (GOES). The Ministry of Agriculture (MAG) continues efforts to shift traditional agriculture to more profitable non-traditional export crops. The law for production of alternative fuels, including ethanol, continues to be "on hold" and there is no set date for its entry into force.

Executive Summary:

Higher yielding sugarcane varieties, diversification of the industry into the production of energy and alcohol/ethanol, investment in milling equipment to improve sugar yields, and additional access to the U.S. market due to CAFTA-DR will all benefit El Salvador's sugar industry over the next 3 to 5 years.

A national sugar law for commercialization, production, and distribution of sugar is an important component to the reengineering process that the industry has undergone. In addition, assisted by attractive prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters such as Tropical Storm E12, high transportation costs and lack of government policies to assist sugarcane growers. Ultimately the success of the industry will depend on compliance with the sugar law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and an ethanol law that encourages investment.

Sugarcane production for the 2012/13 harvest is estimated at 5.99 million metric tons (MMT). Based on new data provided by CONSAA, production for 2011/12 has been increased to 5.83 MMT.

Sugar production for 2012/13 is estimated at 695,000 metric tons (MT). Sugar production for 2013/14 is expected to increase by approximately 5,000 MT. However, weather conditions will continue to play a major role in future sugar production. Erratic weather patterns caused by the global warming phenomenon can pose threats to the upcoming sugarcane production. New data provided by CONSAA show exports reaching 386,000 MT for MY2012 and are estimated at 419,000 MT for MY2013.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.35 per pound plus a 13 percent value-added-tax. Higher fertilizer, fuel and other input costs could play a major role in future sugar production.

El Salvador together with the rest of Central America continues negotiating a Trade Association Agreement with the European Union (EU) that could provide access to up to 100,000 MT of duty-free sugar from the region. Also, Central America is negotiating a free trade agreement with Canada that could also benefit the sugar industry.

Commodities:

Sugar Cane for Centrifugal

Production:

Recent production numbers compiled by FAS office in San Salvador show that the 2012/13 sugarcane harvest is expected to reach 5.99 MMT. Sugar production is estimated to be 695,000 MT in 2012/13.

These positive production numbers are a direct result of the local sugar industry working to control sugarcane burning during harvest, to create new sugarcane varieties that are more resistant to pests and diseases, and to increase investment in the sugar milling process. Sugar production is expected to increase slightly in 2013/14 reaching approximately 700,000 MT.

Area planted grew to 64,000 hectares (ha) during 2012/13 mainly due to positive international sugar cane prices. Planted area could increase in the near future if the ethanol production law is implemented since there is ample idle land in the country that can be devoted to increased sugarcane production.

Grower prices continue to be set according to the sugar content of the cane. According to the sugar law, producers receive 54.5 percent of total sugar sales, with the rest appropriated by sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane they provided. Continued investment on part of all sugar mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region.

Consumption:

Continued increased consumption by the candy and juice industry continues to provide stability to internal consumption numbers with domestic consumption reaching 285,000 MT in 2012/13. Higher exports of these products, due to opportunities provided by the CAFTA-DR Free Trade Agreement, could contribute to increased consumption in the medium term. Post estimates 2013/14 consumption at 290,000 MT; however consumption numbers will ultimately depend on the recovery of a sluggish Salvadoran economy.

Trade:

Exports for 2012/13 are expected to reach 419,000 MT; the export forecast for 2013/14 is 425,000 MT.

The GOES continues to impose 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 CAFTA-DR has spurred regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar.

Chile and the U.S. re-export markets are major destinations for Salvadoran sugar exports. In MY-2012, 55,179 MT were exported to Chile. Other important destinations include Canada, South Korea and Taiwan. Export destinations for 2013 are expected to be similar to 2012.

| Export Trade Matrix El Salvador Centrifugal Sugar | | | |
|--|-------------|---------------|-------------|
| Time Period | MY | Units: | MT |
| Exports for: | 2012 | | 2013 |
| U.S. | 73,455 | U.S. | 59,527 |

| | | | |
|--------------------|----------------|---------------|----------------|
| Others | | Others | |
| USA re-export | 185,820 | USA re-export | 192,493 |
| Chile | 55,179 | Chile | 56,000 |
| South Korea | 22,000 | Taiwan | 49,000 |
| Canada | 19,500 | Portugal | 33,000 |
| Dominican Republic | 19,000 | Canada | 25,000 |
| Taiwan | 5,000 | | |
| Peru | 3,130 | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 309,629 | | 355,493 |
| Others not Listed | 3,219 | | 3,500 |
| Grand Total | 386,303 | | 418,520 |

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in 2012/13 are estimated at 27,000 MT. Contraband sugar from neighboring countries is under control and no longer causes a disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA. Stock levels are expected to decrease by approximately 15,000 MT in 2013/14.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A to reduce blindness in the local population. 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 which includes members from the government, sugar producers, and sugar mills.

A law for the production of alternative fuels, including ethanol, is still under review by the Government of El Salvador (GOES). Under the previous GOES administration there was agreement with the sugar industry on a 10 percent mix for ethanol and with gasoline. But thus far, the current government administration has not decided on enactment of this law arguing that they need to make sure that it is beneficial and has no negative impact on the environment and on consumers.

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

- Production of only the amount of sugar that can be sold at profitable prices;

- Improvement of milling yields;
- Diversification of mill income by focusing on energy generation;
- Improvement of sugar cane varieties to have better sugar recovery yields and higher quality sugar;
- Exchange of research and technology with other sugar producing countries; and
- Introduction of new sugarcane varieties that are pest and disease resistant.

Production, Supply and Demand Data Statistics:

| Sugar Cane for Centrifugal Salvador EI | 2011/2012 | | 2012/2013 | | 2013/2014 | |
|---|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| | Market Year Begin: Nov 2011 | | Market Year Begin: Nov 2012 | | Market Year Begin: Nov 2013 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted | | 63 | | 64 | | 64 |
| Area Harvested | | 61 | | 62 | | 62 |
| Production | | 5,833 | | 5,990 | | 5,890 |
| Total Supply | | 5,833 | | 5,990 | | 5,890 |
| Utilization for Sugar | | 5,833 | | 5,990 | | 5,890 |
| Utilization for Alcohol | | 0 | | 0 | | 0 |
| Total Utilization | | 5,833 | | 5,990 | | 5,890 |

Units of Measure for Area are in 1,000 Hectares.

Units of Measure for Production, Supply & Utilization are in 1,000 Metric Tons.

| Sugar, Centrifugal Salvador EI | 2011/2012 | | 2012/2013 | | 2013/2014 | |
|-----------------------------------|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| | Market Year Begin: Nov 2011 | | Market Year Begin: Nov 2012 | | Market Year Begin: Nov 2013 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | | 16 | | 36 | | 27 |
| Beet Sugar Production | | 0 | | 0 | | 0 |
| Cane Sugar Production | | 681 | | 695 | | 700 |
| Total Sugar Production | | 681 | | 695 | | 700 |
| Raw Imports | | 0 | | 0 | | 0 |
| Refined Imp.(Raw Val) | | 0 | | 0 | | 0 |
| Total Imports | | 0 | | 0 | | 0 |
| Total Supply | | 697 | | 731 | | 727 |
| Raw Exports | | 386 | | 419 | | 425 |
| Refined Exp.(Raw Val) | | 0 | | 0 | | 0 |
| Total Exports | | 386 | | 419 | | 425 |
| Human Dom. Consumption | | 275 | | 285 | | 290 |
| Other Disappearance | | 0 | | 0 | | 0 |
| Total Use | | 275 | | 285 | | 290 |
| Ending Stocks | | 36 | | 27 | | 12 |

| | | | | | | |
|--------------------|--|-----|--|-----|--|-----|
| Total Distribution | | 697 | | 731 | | 727 |
|--------------------|--|-----|--|-----|--|-----|

Units of Measure for Stocks, Production, Imports, Exports & Consumption are in 1,000 Metric Tons.

Author Defined:

Price Policy

The wholesale price for white sugar is US\$0.33 per pound plus a 13 percent value-added-tax (VAT).

At the retail level, white sugar is sold at US\$0.35 per pound plus the VAT.