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El Salvador

Sugar Annual

2015 Sugar Production Up - but (price and El Nino) stormy weather looms.

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Report Highlights:

El Salvador's sugarcane planted area in 2014/2015 (Nov 2014-Oct 2015) is higher than in 2013/14 reaching 71,143 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year 2014, most sugar exports were destined for Canada, South Korea, Australia, New Zealand, Taiwan, the Netherlands and to the U.S. re-export market. Favorable (but declining) international prices continue providing financial relief to the sugar sector. 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 continue to benefit El Salvador's sugar industry over the next 3 to 5 years. Declining international prices and an expected El Nino weather pattern might bring stormy conditions.

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 (mostly) 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, 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 the stakeholders, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and an ethanol law that encourages investment. However, increased crime rates including extortions are of major concern to the sector.

Sugarcane production for the 2014/15 harvest is estimated at 6.35 million metric tons (MMT). Based on new data provided by CONSAA, production for 2013/14 has been revised to 6.1 MMT.

Sugar production for 2014/15 is estimated at 725,000 metric tons (MT). Sugar production for 2015/16 is expected to increase by approximately 10,000 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; forecasters predict an El Niño phenomenon could cause drought conditions by the middle of 2015. New data provided by CONSAA show exports reaching 403,801 MT for MY2014 and are estimated at 430,000 MT for MY2015.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.39 per pound plus a 13 percent value-added-tax. Higher input costs, sugarcane burning and increased crime activity (in El Salvador) could play a major role in future sugar production.

In November 2013, El Salvador, together with the rest of Central America, signed a Trade Association Agreement with the European Union (EU) that provides access to up to 100,000 MT of duty-free sugar from the region and a 25,088 MT quota for El Salvador. Furthermore, Central America is negotiating a free trade agreement with Canada that could also benefit the sugar industry.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Select

Production:

Recent production numbers compiled by the FAS office in San Salvador show that the 2014/15 sugarcane harvest is expected to reach 6.35 MMT. Sugar production is estimated to be 725,000 MT in 2014/15. These production numbers are higher than in 2013/14 mainly due to increased planted area and higher yielding varieties. However, the sugar sector continues working to control sugarcane burning during the 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 in 2015/16 reaching approximately 735,000 MT.

Planted area planted increased to 71,143 hectares (ha) during 2014/15 mainly due to positive international sugar 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:

Increased consumption by the candy and juice industry continues to provide stability to internal consumption numbers with domestic consumption reaching 285,000 MT in 2014/15. 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 2015/16 consumption at 288,000 MT; however consumption numbers will ultimately depend on the recovery of a sluggish Salvadoran economy.

Trade:

Exports for 2014/15 are expected to reach 430,000 MT; the export forecast for 2015/16 is 450,000 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 encouraged regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar.

South Korea, Australia, New Zealand, Taiwan and Canada were major destinations for Salvadoran sugar exports. In MY-2014, 84,000 MT were exported to South Korea. Other important destinations

include the Netherlands and the U.S. re-export market. Export destinations for 2015 are expected to be similar to 2014

| Export Trade Matrix El Salvador Centrifugal Sugar | | | |
|--|----------------|---------------|----------------|
| Time Period | MY | Units: | MT |
| Exports for: | 2014 | | 2015 |
| U.S. | 60,439 | U.S. | 65,500 |
| Others | | Others | |
| USA re-export | 85,690 | USA re-export | 94,000 |
| South Korea | 84,000 | South Korea | 86,000 |
| Canada | 61,500 | Canada | 63,500 |
| Australia | 28,500 | Australia | 30,000 |
| New Zealand | 27,320 | New Zealand | 29,000 |
| Taiwan | 23,394 | Taiwan | 25,000 |
| Netherlands | 18,092 | Netherlands | 19,500 |
| Italy | 3,171 | Italy | 4,500 |
| Spain | 2,440 | Spain | 3,500 |
| | | | |
| Total for Others | 334,107 | | 355,000 |
| Others not Listed | 9,255 | | 9,100 |
| Grand Total | 403,801 | | 429,600 |

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in 2014/15 are estimated at 62,000 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 remain at the same level in 2015/16.

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 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;
- Introduction of new sugarcane varieties that are pest and disease resistant; and
- Coordination with Security Forces to diminish the impact of sugarcane burning and extortions from gangs.

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

| Sugar Cane for Centrifugal Market Begin Year El Salvador | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|--|---------------|----------|---------------|----------|---------------|----------|
| | Nov 2014 | | Nov 2015 | | Nov 2016 | |
| | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Area Planted | 70 | 70 | 70 | 71 | 0 | 72 |
| Area Harvested | 68 | 68 | 68 | 69 | 0 | 70 |
| Production | 6,000 | 6,080 | 5,900 | 6,350 | 0 | 6,500 |
| Total Supply | 6,000 | 6,080 | 5,900 | 6,350 | 0 | 6,500 |
| Utilization for Sugar | 6,000 | 0 | 5,900 | 6,350 | 0 | 6,500 |
| Utilization for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Utilization | 6,000 | 6,080 | 5,900 | 6,350 | 0 | 6,500 |
| | | | | | | |

1000 HA, 1000 MT

| Sugar, Centrifugal Market Begin Year El Salvador | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|--|---------------|----------|---------------|----------|---------------|----------|
| | Oct 2013 | | Oct 2014 | | Oct 2015 | |
| | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Beginning Stocks | 41 | 41 | 26 | 55 | 0 | 62 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Cane Sugar Production | 650 | 703 | 665 | 725 | 0 | 740 |
| Total Sugar Production | 650 | 703 | 665 | 725 | 0 | 740 |
| Raw Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Refined Imp.(Raw Val) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 691 | 744 | 691 | 780 | 0 | 802 |
| Raw Exports | 380 | 404 | 390 | 430 | 0 | 450 |
| Refined Exp.(Raw Val) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Exports | 380 | 404 | 390 | 430 | 0 | 450 |
| Human Dom. Consumption | 285 | 285 | 285 | 288 | 0 | 290 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 285 | 285 | 285 | 288 | 0 | 290 |
| Ending Stocks | 26 | 55 | 16 | 62 | 0 | 62 |
| Total Distribution | 691 | 744 | 691 | 780 | 0 | 802 |
| | | | | | | |

1000 MT

Source: CONSAA and USDA/FAS