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Date: 4/10/2015
GAIN Report Number:

Dominican Republic

Sugar Annual
2015

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Report Highlights:
During Marketing Year 2014/2015 (MY 2014/15) Post projects overall sugar production of 540,000 Metric Tons (MT), down from 561,324 MT produced during MY 2013/14. Additionally, for MY 2014/15 Post projects exports to increase slightly to 210,000 MT and imports to remain in the 30-40,000 MT range. Finally, the Dominican Republic is estimated to fill the U.S. annual sugar tariff-rate quota (TRQ) for MY 2015 due to better availability and price conditions in the U.S. market.

Commodities:
Sugar, Centrifugal

Production:

For MY 2014/2015 (MY 2014/15), Post expects overall production to decrease to 540,000 MT, due to persistent drought over the production zones, soft prices on the international and local markets and stagnant local consumption. For MY 2014/15 the average industrial yield of the industry is estimated at 11%; similar to previous years. According to the Dominican Sugar Institute (INAZUCAR) and Post research, total sugar production reached 561,324 MT during MY 2013/14, comprised of 386,494 MT raw; 171,733 MT refined; and 3,097 MT of direct white[1].

The largest private producer (Central Romana) continues to dominate the Dominican sugar market, producing approximately 64% of total local production. Post projects Central Romana to decrease their production to 345,000 MT during MY 2014/15, due to persistent drought and disappointing international market prices; factors that also affected their production during MY 2013/13. Although Central Romana produced approximately 359,000 MT during MY 2013/14, that represented a 9% decrease in their raw sugar production compared to MY 2012/13. Central Romana is the only mill currently producing refined sugar, and is expected to remain so in the short term.

The second largest producer (Vicini Group) is projected to produce 100,000 MT of raw sugar during MY 2014/15. During MY 2013/14, Vicini Group produced 107,400 MT of raw sugar, an 11% increase from MY 2012/13. The increase was due to the inclusion of machinery that was not available during MY 2012/13. Consorcio Azucarero Central, which is the third largest producer, is projected to add approximately 72,000 MT during MY 2014/15. Last year, a fourth mill, Ingenio Porvenir rcame under control of the Government following the collapse of the rental agreement between private investors and the Government. With unexpected private local investment, the mill managed to produce 18,000 MT of raw sugar during MY 2013/14. Post projects a slightly increase in production for this mill during MY 2014/15, to 20,000 MT.

According to Post interviews with the major mills and INAZUCAR authorities, depending on the evolution of international sugar prices, for MY 2015/16 the three largest mills are forecast to increase their production via expansion in sugar cane plantings, adoption of new varieties and increases in the industrial yield.

Consumption:

Post does not project important increases in consumption during MY 2014/15. If the Government reaches its goal of hosting 10 million tourists annually by 2024 local consumption could increase by as much as 40%.

During MY 2013/14 the local consumption of sugar was 390,000 MT for an estimated per capita consumption of 83 pounds per person/per year. Of this total, the Dominican market consumed approximately 53% raw sugar and 47% refined.

Trade:

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[1] Direct white is raw sugar with an altered color; not submitted to the refinement process. This sugar is mostly consumed locally by pastry shops and non-alcoholic beverage producers. Currently, this process is only used by Ingenio Cristobal Colon (Vicini Group). Ingenio Barahona will probably start implementing it during MY 2015.

Despite recent soft demand, the U.S. market remains the most important one for the DR. For MY 2014/15, Post projects slightly increased exports at 210,000 MT due to a rebound in US demand and prices. During MY 2013/14, according to INAZUCAR and Post research, exports of raw cane sugar totaled 208,000 MT, up from 170,000 MT in MY 2012/13. The increase in exports was due mainly to increased demand from the E.U.

The U.S. announced allocations for Fiscal Year 2015 (FY 2015) and once again, the DR received the largest single-country allocation, representing 16.58% of the entire TRQ. The allocation was distributed by the Dominican Government, as follows:

FY 2015 U.S. TRQ ALLOCATION AND LOCAL DISTRIBUTION

Mill	Allocations of U.S. TRQ		
	Share (%)	*Quantity (MTRV)*	*Quantity (MTCV)***
Central Romana	62.84	116,465	111,583
Grupo Vicini	25.20	46,704	44,746
Consorcio Azucarero Central	10.00	18,533	17,756
Ingenio Porvenir	1.96	3,633	3,480
TOTAL	***100.00***	***185,335***	***177,566***

**MTCV: Metric Tons Commercial Value.*
Source: INAZUCAR, Decree No. 324-13 http://www.inazucar.gov.do/DECRETO%20ZAFRA%202014-2015%20(1).pdf.

According to comments by INAZUCAR, and private sector contacts, the industry intends to fully use the U.S. TRQ during FY 2015, and believes that a high utilization rate is important to maintaining the DR's positions as the largest quota-holder. According to Post data, half way into MY 2015 the Dominican Republic has exported 105,277 MT to the U.S. (57% fill rate); already a similar fill rate to all of MY 2013/14. Nonetheless, it is projected that exporters will continue to ship sugar to the EU but in much smaller quantities then in MY 2013/14 (between 15-25,000 MT).

During FY 2014, the Dominican Republic also received the largest single country allocation for the annual U.S. tariff-rate quota (TRQ): 185,335 MT, out of a total of 1,117,195 MT assigned. Nonetheless, the DR only filled 60% of the assigned TRQ (111,325 MT). Allocations and executions per individual mill in FY 2014 were:

FY 2014 U.S. TRQ ALLOCATION AND EXECUTION

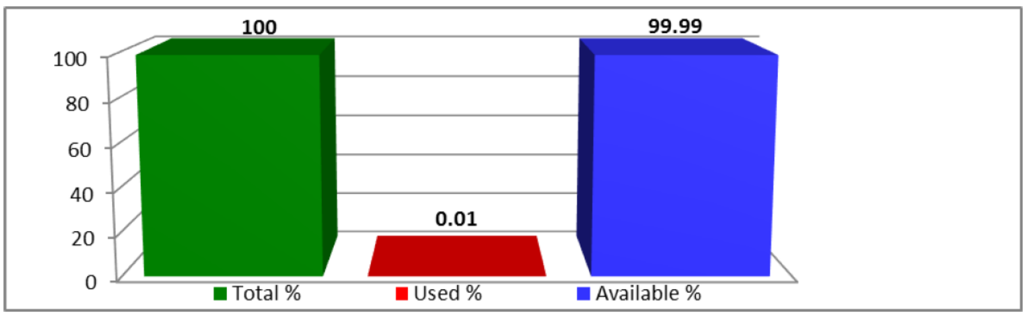
Mill	Allocations of U.S. TRQ		Execution of U.S. TRQ	
	Share (%)	*Quantity (MTRV)*	*Quantity (MTRV)*	*Non-executed (MTRV)*
Central Romana	62.84	116,465	51,000	65,465
Grupo Vicini	25.20	46,704	44,925	1,779
Consorcio Azucarero Central	10.00	18,533	15,400	3,133
Ingenio Porvenir	1.96	3,633	0	3,633
TOTAL	***100.00***	***185,335***	***111,325***	***74,010***

**(MTRW): Metric Tons Raw Value.*
Source: INAZUCAR, Decree No. 656-12, http://www.inazucar.gov.do/DECRETO%20324-13.pdf ; FAS CQI files.

Additionally, after a formal request from the Dominican Government, the Office of the United States Representative (USTR) announced an additional quota of 18,512 MT, increasing the total assigned quota to 203,847 MT for FY 2014. However, the Dominican Republic did not execute any of the additional quota.

In the context of the CAFTA-DR framework, an additional quota exists for products containing sugar. That quota is allocated to CAFTA-DR signatory countries each calendar year, based on the country's performance[2] and availability. For FY 2015 the Dominican Republic received an allocation of 11,800 MT of this quota, and so far has only used 0.01% of it:

Heading: AGRIC - CAFTA - 98 USN 25b - Dominican Republic, Sugar/Sugar Containing Products 9822052000/DO
Period: 01/01/2015 **Through:** 12/31/2015
Country Dominican Republic **Date/Time Filled:** Open
UOM: KG **Q Level:** 11,800,000 **Ent-Qty:** 756 **% Filled:** 0.01



Source: *http://www.cbp.gov/sites/default/files/documents/QuotaReport03022015_061320_0.pdf*.

Since 2013 the Dominican Republic has been increasingly focused on taking advantage of their preferential access as a member of the EU-CARIFORUM Economic Partnership Agreement (EPA). Historically, the DR prioritized filling the U.S. TRQ and only exported to the EU when supplies allowed. The Dominican Republic exported 92,000 MT to the EU during MY 2013/14. The leading supplier to the EU was Central Romana, which exported 43,000 MT.

Smaller quantities are informally exported to neighboring Haiti in response to disparities in market prices. However, these quantities are not necessarily reflected in official export figures. According to Post sources, quantities may vary between zero and 50-60,000 TM per year depending on the relative price levels in Haiti and the DR.

The Dominican Republic imports limited quantities of sugar annually. Post forecasts imports levels to remain similar to other years during MY 2014/15, between 30-40,000 MT. During MY 2013/14 imports totaled 30,000 MT, up from 9,492 MT during MY 2012/13. The Government approved the importation of this refined sugar total to satisfy local demand from processors (Resolution 05/2014 from INAZUCAR).

[2] *In the Final Text of the CAFTA-DR Agreement, please see Appendix I to the Schedule of the United States to Annex 3.3 for more details: http://www.ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file971_3958.pdf*

Current in-quota import duties for raw and refined sugar are 14% and 20%, respectively, plus an 18% value-added tax (VAT)[3]. As part of its World Trade Organization (WTO) commitments under the Technical Rectification following the Uruguay Round, the DR Government established a TRQ of 30,000 MT for sugar (with the in-quota rates cited above), coupled with an out-of-quota tariff of 85%. Following these negotiations, the DR has often issued import permits for amounts in excess of 30,000 MT annually in order to cover shortfalls in domestic production. Generally, these additional amounts are assessed only the in-quota tariff rate. INAZUCAR is the entity responsible for administering the tariff quota for sugar and is a dependency of the Ministry of Agriculture.

Under the CAFTA-DR, Annex 3.3 of the Agreement establishes that the DR will phase out its sugar tariffs over a 15-year period, beginning from the base rate of 85%. The rates will be at zero as of January 1, 2020.

As of 2015, the ninth year of the Agreement, the current tariff rate is 28.33%. Tariffs on High Fructose Corn Syrup (HFCS) will also be phased out during the liberalization period, in accordance with a different liberalization schedule.

Stocks:

Producers hold the lion's share of stocks, which typically range from 20,000 to 50,000 MT. During MY 2014/15, as exports rise and production declines, stocks are projected to decline to 37,000MT. For MY 2013/14, estimated ending stocks were raised slightly to 57,000 MT, due to availability of revised export figures.

Policy:

Several laws regulate the sugar sector in the Dominican Republic. Law 491 controls the relationship between private cane producers and millers and sets prices for raw cane based on sugar content. Similarly, Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), TRQ assignment, price schedules and statistics.

For a number of years, the government has been promoting the use or development of an ethanol-gasoline blend, previously authorized by an old law (2071) and reactivated by Decree No. 556-05 in 2005. Subsequently, the regulations outlined in the 2005 legislation were enacted in Law No. 57-07 (promulgated in May 2007), which seeks to encourage the development of renewable sources of energy and their special regimes. The effort to establish a mandate that would include a requirement of 10 percent ethanol in an ethanol-gasoline blend and one of 20 percent biodiesel for a diesel blend has stagnated. The start date has been postponed several times and, and both local and foreign investors remain hesitant to support this plan under such uncertainties. None of the major mills currently plan to install ethanol production facilities or are advocating for implementation of the blending mandate.

All of the major mills are, or soon will be, self-sufficient in energy production, and look to boost co-generation capacity from the incineration of sugar cane bagasse. Some of the mills, especially Consorcio Azucarero Central, continue to be interested in supplying energy to the national matrix (co-generation)

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[3] *The DR's value-added tax or VAT is referred to locally as the "Impuesto a la Transferencia de Bienes Industrializados y Servicios" (ITBIS).*

to generate additional income. However, the lack of legal framework for commercial sales of that energy injects an element of uncertainty into those plans.

Marketing:

The Ministry of Industry and Commerce and INAZUCAR establish the base price for both raw and refined sugar, based on historical prices and production estimates. The prices set as of January 2014 continue to be the official prices in the local market, as follows:

OFFICIAL PRICES FOR SUGAR (JANUARY 2014)

Type of Sugar	Prices (US$/pound)		
	Producer to wholesaler	Wholesaler to retail	Retail to consumer
Raw	0.30	0.33	0.37
Refined	0.35	0.38	0.42

**Average exchange rate of January 2014, according the central Bank: RD$42.86=US$1.*
Source: INAZUCAR, Resolution No. 001/2014; http://www.inazucar.gov.do/RESOLUCION%20N0.001-2014.pdf.

Other products:

In addition to raw sugar exports, other sub-products are produced for both local and international markets representing important revenue sources for the industry. For example, for MY 2013/14 the industry sold locally 14.6 million gallons of molasses for industrial and livestock use. Another 21.8 million gallons of molasses were exported during the same period.

Another important product is furfural which is used by oil refineries as a dissolving agent and is processed out of the cane fiber. Furfural is only produced by Central Romana and, according to INAZUCAR, their exports accounted for 28,289 MT—valued at $18.7 million-- in MY 2013/14.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Nov 2014		Nov 2015		Nov 2016	
Dominican Republic	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	106	106	116	105	0	110
Area Harvested	225	106	116	105	0	110
Production	4,990	5,033	5,300	5,000	0	5,100
Total Supply	4,990	5,033	5,300	5,000	0	5,100
Utilization for Sugar	4,990	5,033	5,300	5,000	0	5,100
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	4,990	5,033	5,300	5,000	0	5,100
1000 HA, 1000 MT						

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
Dominican Republic	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	64	64	41	57	0	37
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	561	561	580	540	0	550
Total Sugar Production	561	561	580	540	0	550
Raw Imports	28	0	50	0	0	0
Refined Imp.(Raw Val)	0	30	0	40	0	40
Total Imports	28	30	50	40	0	40
Total Supply	653	655	671	637	0	627
Raw Exports	220	208	230	210	0	200
Refined Exp.(Raw Val)	2	0	3	0	0	0
Total Exports	222	208	233	210	0	200
Human Dom. Consumption	390	390	390	390	0	390
Other Disappearance	0	0	0	0	0	0
Total Use	390	390	390	390	0	390
Ending Stocks	41	57	48	37	0	37
Total Distribution	653	655	671	637	0	627
1000 MT						