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Colombia

Sugar Annual

Sugar Production Rebounds

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Report Highlights:
Colombian sugar production in Marketing Year (MY) 2014/15 is expected to increase a marginal two percent, up to 2.4 million metric tons (MT) after a measurable decline the previous two years. Post estimates sugar exports to reach 810,000 MT in MY 2014/15, up one percent from the previous year. In calendar year (CY) 2014, Colombia filled the 51,500 MT export quota under the U.S.-Colombia Trade Promotion Agreement (CTPA).

Executive Summary:

Colombian sugar production is expected to increase to 2.4 million MT in MY 2014/15, a two percent increase from MY 2013/14. Sugar production has experienced a steady recovery from excessive rains in 2011 and 2012. Production is now reaching historical averages. In addition, sugar cane yields have increased due to good weather. The Cauca river valley in southwest Colombia is the primary growing region for cane sugar with the area in production at almost full capacity with little land for expansion. The increases in productivity are the outcome of technology improvements and better weather. Ethanol productive capacity will expand by the end of 2015 after three years of delays in opening new ethanol distilleries. Sugar exports will increase just one percent to 810,000 MT in MY 2014/15, paralleling the increase in sugar production; however, Colombian sugar exports are forecast to fall to 790,000 MT in MY 2015/16 as a result of increased ethanol production to meet the domestic blend mandate. The quota for 2014 under the CTPA was 51,500 MT for Colombian raw sugar equivalent and will increase to 52,250 MT for CY 2015.

Commodities:

Sugar, Centrifugal

Production:

In MY 2014/15, Post projects that sugar production will increase to 2.4 million MT, about two percent higher than the previous year. Colombian sugarcane production continues to recover from 2011 and 2012 as weather improves and longer daylight increases the sucrose content of the cane. Replanted sugar cane areas damaged from the excessive rains of 2011 and 2012 are now entering into production and, along with better weather, will boost production levels. Preliminary figures indicate that in the last five months (October 2014 to February 2015) cane milling increased 35%, paralleling the 36% increase in sugar production.

Weather has been excellent since 2013 for sugarcane production. As a result, the sucrose content of sugar cane has improved with yields increasing from 11 to 11.7 tons of refined sugar per ton of sugar cane. In addition, around 5,000 hectares of new sugar cane area planted are being cultivated in the northeastern area of the Cauca river valley. The new area planted is taking advantage of innovative seed and other technological improvements developed by the Colombian Sugar Industry Research Center (CENICAÑA), in particular applying new seed varieties that are better adapted to climate change and weather volatility.

Post estimates that cane sugar yields will remain as favorable weather continues; however, a new ethanol distillery will begin full production in 2016, reducing the amount of cane for refined sugar production. Post, therefore, estimates that sugar production will fall by 100,000 MT to 225,000 MT in MY 2015/2016.

Colombian sugar cane is harvested year-round with a continuous process of harvesting, milling and ethanol distilling. Cane sugar production and processing are heavily concentrated in the Cauca river valley due to the appropriate climate and the density of mills and distilleries which support economies of scale over other regions of Colombia. In the Cauca river valley alone there are 13 mills and five ethanol distilleries.

On average, under normal weather conditions, the Cauca river valley harvests about 90 percent of the planted area with the rest of the land idle as part of a land management strategy. There are about 230,000 hectares of cane sugar area planted in the Cauca river valley, which is close to the total area available that can be planted. The Cauca river valley is one of the most efficient sugarcane producing regions in South America, yielding on average approximately 120 MT per hectare.

The Colombian sugar industry is highly vertically integrated with only a few companies managing all the sugar cane production and processing for ethanol, power generation and the food industry. In 2005, distilleries began producing ethanol, impacting sugar production and distribution to local and external markets. Domestic ethanol demand has offset sugar exports significantly, about 40 percent annually since 2006. In 2014, ethanol production reached 406 million liters and plant capacity remained at approximately 1.3 million liters per day. A new ethanol facility is expected to enter into operation at the end of 2015 which will add 400,000 liters, increasing Colombia's total ethanol productive capacity to 1.7 million liters per day.

Non-Centrifugal Sugar:
Colombia is the second largest non-centrifugal sugar producer known as Panela in the world after India, according to the United Nations Food and Agriculture Organization (FAO). There are an estimated 70 thousand Panela farmers with 80 percent of production occurring on farms of less than 5 hectares. The Panela sector employs approximately 120 thousand subsistence farmers throughout Colombia with dispersed areas of production and thousands of low technology crushing/milling facilities. In CY 2014, Colombian non-centrifugal sugar production reached 1.4 million MT, a 15 percent increase from the previous year.

Consumption:
In MY 2014/15, Colombian sugar consumption is estimated at 1.61 million MT, a three percent increase from the year before. Consumption is driven by demand from the confectionary sector to satisfy increased exports of processed food products. Sugar mills prefer the Colombian refined sugar because of higher prices and higher returns compared to raw sugar. Raw sugar is mainly exported to foreign markets to satisfy the U.S. sugar quota and demand in Europe. For panela, Colombian annual per capita consumption is estimated at 55 pounds (25 kilograms), the highest in the world according to the FAO.

Trade:
Colombia is a net exporter of sugar. Exports of sugar are sensitive to international prices and to domestic increases in ethanol production. International prices fell in 2013 for the second consecutive year motivating the sugar industry to focus on supplying the domestic market given the stronger relative price. Post estimates that in MY 2014/15 domestic demand will continue to absorb the increase in production and any excess will be exported. Post estimates that exports will increase to 810,000 MT for MY 2014/15 and also forecasts that exports will fall to 790,000 MT in MY 2015/16 as cane sugar is diverted to ethanol production to supply the new distillery.

The first year of ethanol production to meet the domestic blend mandate was 2006 and resulted in Colombia started to import significant volume of sugar. This opened the door to foreign imports and since then imports have displaced some domestic production, supplying about eight percent of domestic consumption. In MY 2014/15, sugar imports will satisfy nine percent of the domestic market.

In MY 2013/2014, Chile was the top destination for Colombian sugar exports at 154,000 MT, 33 percent higher than the year before. The next largest markets for Colombian sugar are Peru, then Haiti and Ecuador.

Colombia is able to export sugar to the United States under both the World Trade Organization (WTO) and CTPA quotas. The WTO quota in MY 2013/2014 was 25,273 MT. In CY 2014, the CTPA quota was 51,500 MT. In MY 2014/2015, post estimates that Colombia will fill the 25,273 MT WTO quota. As well, in CY 2015, Colombia will likely fill the CTPA quota of 52,250 MT.

Colombia's sugar imports reached 140,000 MT in MY 2013/14. Post estimates that imports will fall to 130,000 MT in MY 2014/15, but rebound to 150,000 MT in MY 2015/2016. Colombian export competitiveness has benefited from a weak peso which has partially compensated for lower international export prices. In MY 2013/2014, Bolivia, Peru and Brazil made up 99% of total Colombian imports. Sugar imports from Bolivia and Peru enter duty free under trade preferences with the Andean Community of Nations (CAN). Brazil is subject to a lower duty under a regional trade pact, the Latin American Integration Association.

Stocks:
Colombia produces sugar year-round and is able to meet domestic demand without supply disruptions. There are no Colombian government programs or incentives for sugar mills to hold inventories. According to Post contacts, mills can hold stocks for a short timeframe to meet more immediate processing needs. Private sector sugar inventories for both domestic and export markets are projected to reach 250,000 MT in MY 2014/15, a 28 percent increase from the previous year due to a recovery in sugar production. In MY 2015/16, Post forecasts inventories to fall to 225,000 MT due to more fluid domestic market deliveries and ethanol production.

Policy:

Sugar Price Stabilization Fund (PSF)
Colombia is a net exporter of sugar with production satisfying both domestic sugar demand and raw cane for ethanol distilling. The PSF mechanism was established in 2001 to avoid oversupply and low prices in the domestic sugar market. Given thin margins for sugar mills, low prices would create an economic burden to milling operations. The PSF provides incentives for sugar exports by hedging against domestic and international market price differentials, setting a market weighted average price (MWAP). Historically, domestic sugar prices are higher than export prices (except for U.S. export prices under quota). Milling operations that sell sugar at prices above the MWAP, or typically the domestic market, will contribute the difference to the PSF. Those that sell sugar at prices below the MWAP, on the other hand, will receive the difference in compensation from the PSF.

Price Band

Sugar imports from CAN countries are allowed duty-free entry into Colombia. Imports from outside the CAN are subject to a variable duty under the price band system. The basic duty rate on imports of raw and refined sugar from non-CAN countries is 15 percent.

The CAN revises the price band, both ceiling and floor, every April. The duty adjustment is made based on whether a reference price is above, below or within the ceiling and floor price. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the sugar import duty is set at a 15 percent of the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. When the reference price exceeds the ceiling price, however, a reduction is made to the applied duty rate based upon the difference between the reference and the ceiling price.

The CAN price band from the period of April to March 2015/16 is illustrated below:

CAN Price Band April 2015 to March 2016				
	Floor Price *USD per ton April / March*		***Ceiling Price*** *USD per ton April / March*	
	2014/15	**2015/16**	**2014/15**	**2015/16**
Raw Sugar	$512	$518	$635	$640
Refined Sugar	$625	$630	$747	$755

Source: CAN

For the last two weeks of April 2015, the international reference prices per ton for raw and refined sugar were set at $302 and $391, respectively. For both raw and refined sugar, the reference prices are below the floor price, so an additional variable duty is added to the basic duty. The duty for raw and refined sugar will be 97% and 85%, respectively.

CTPA

On May 15, 2012, the CTPA went into force. The CTPA eliminated the price band duty for imports from the United States. For 2015, the current Tariff-Rate-Quota for glucose, which includes high-fructose corn syrup, is 12,155 MT and will continue to increase 5% annually. As well, the import duty beyond quota will be reduced from the initial 28% at 2.8% annually as part of a 10-year phase-out period. In 2015, the duty on out-of-quota glucose imports from the United States is 16.8 percent.

CAN and Southern Common Market (MERCOSUR)

CAN members (Peru, Ecuador and Bolivia) have duty free access to Colombia's sugar market. Under the Colombia/MERCOSUR free trade agreement, which began in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant trade preferences under previous bilateral agreements, such as LAIA, where MERCOSUR members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina (66%), Brazil (66%), Paraguay (49%), and Uruguay (60%).

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Colombia	2013/2014		2014/2015		2015/2016	
	Market Year Begin: Oct 2013		Market Year Begin: Oct 2014		Market Year Begin: Oct 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	120	120	195	195		250
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	2,300	2,300	2,300	2,350		2,250
Total Sugar Production	2,300	2,300	2,300	2,350		2,250
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	140	140	150	130		150
Total Imports	140	140	150	130		150
Total Supply	2,560	2,560	2,645	2,675		2,650
Raw Exports	150	150	140	140		140
Refined Exp.(Raw Val)	650	650	660	670		650
Total Exports	800	800	800	810		790
Human Dom. Consumption	1,560	1,560	1,610	1,610		1,630
Other Disappearance	5	5	5	5		5
Total Use	1,565	1,565	1,615	1,615		1,635
Ending Stocks	195	195	230	250		225
Total Distribution	2,560	2,560	2,645	2,675		2,650