

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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: 4/15/2015

GAIN Report Number:

Argentina

Sugar Annual

2015

Approved By:

Caleb O'Kray

Prepared By:

Ken Joseph

Report Highlights:

Argentine sugar production for 2015/16 is projected up at 2.25 million metric tons. The production of sugarcane is expected to be record as a result of extremely wet weather in February and March in the producing area. The local industry is facing strong difficulties because of high carry in stocks, a forecast large production, low world sugar prices, increasing production costs and a somewhat lower domestic consumption. The sector wants the government to increase the bioethanol mandate mix and also knows that it will have to export large volumes of sugar, despite losing money. Exports are forecast at 400,000 tons, but could vary significantly.

Commodities:

Sugar, Centrifugal

Author Defined:**Production**

Argentine sugar production for 2015/16 is forecast up at 2.25 million metric tons (MMT) raw value, higher than the previous two crops. Cane production is expected to be a record at approximately 25 million tons. The three main producing provinces, but especially Tucuman, have had unusually rainy weather this summer, with projections of very high cane yields. February and March 2015 were especially very wet with cloudy skies. These conditions promoted cane to continue to grow and delay its maturing process. Some preliminary tests (harvest would normally begin in early May) indicate that the maturity of sugarcane is currently one of the lowest of the past few decades. Low sugar yields in combination with low prices will make processors delay the beginning of the crop season until June. Producers expect to see sugar yields recover throughout the season as it did last year. However, the final production volume will be defined by the weather during winter and primarily by the incidence of frosts, which if severe, could cause production to drop significantly. If the weather is beneficial during harvest (i.e. minimal losses), farmers may end the season with areas of unharvested cane, as they will not have economic incentives or enough time to harvest it all due to the shorter harvesting season.

Current sugar prices for the local market are estimated at AR\$220-240 pesos per 50 kilo bag at the mill, which translates into US\$530 per ton (including VAT tax). Three years ago the price per bag was AR\$270 pesos, but since then, Argentina has suffered more than 100 percent inflation. The combination of low international prices, significantly higher production costs (inflation is estimated at 30 percent for 2015), a strong local currency, a large carry over from crop 2014/15, and an expected large sugarcane crop for 2015/16 is putting a lot of pressure on prices and the sector in general. As is, many sugarcane producers will harvest their cane at a loss as the cost of harvesting plus transportation (in farms 50 kilometers or more away from the mills) in most cases will be higher than what they will collect for their cane. Small cane farmers claim that the price of sugar should be at least 40-50 percent higher than current levels to make money. There are more than 5,000 small (up to 50 hectares) sugarcane producers in Tucuman which account for 30 percent of the provincial production and are facing serious difficulties due to the lack of profitability. In crop 2014/15 the provincial government purchased approximately 35,000 tons of sugar from small cane producers at a premium price. Some believe this could be repeated in the 2015/16 crop as well.

Production of bioethanol for the local mandate is currently the only profitable business in the sugar industry as it benefits from official prices and supply quotas. The cost of production is about US\$ 0.60 per liter, while producers sell it at US\$1 per liter. The problem is that just a handful of companies are in this business because they have the capacity and a portion of the mandate quota.

Planted area of sugarcane for 2015/16 is projected to remain unchanged at 370,000 hectares, with approximately 260,000 hectares in Tucuman and 110,000 hectares in the northern provinces of Salta and Jujuy. Other production alternatives, such as corn or soybeans have low returns due to weaker

world prices and to a significant incidence of freight costs (to ports) which make profitability negative in most cases. Therefore, producers prefer to continue with their cane plantations hoping that better market conditions will improve their operations. There are 15 sugar mills in Tucuman province (managed by 7-8 companies) which last year accounted for 64 percent of the country's total sugar production. Salta and Jujuy together have 5 mills and accounted for 35 percent of the total. The remaining one percent was produced by 3 small mills in the northeastern part of the country.

2014/15 was not a good year for sugar producers due to low prices and high production costs. The sector envisions 2015/16 to be even more complicated. There are currently meetings and presentations going on between the industry, producers and the provincial and federal governments to try to come up with solutions. The sugar industry is very important for the economy of Tucuman, Salta and Jujuy. In order to bring some relief, the sector knows that it has to reduce drastically the amount of excess sugar (past and future) in the market to keep domestic prices the highest possible. Therefore, they are working on the possibility of having the government increase the mandate for blending bioethanol with gasoline from the current ten percent to 12 percent. On average, the mix ratio in 2014 was eight percent, and was increased last December to ten percent. Local car manufacturers are hesitant about the extension of warranties, while oil distributing companies claim that they can import gasoline at a much cheaper price than what they have to pay for domestically produced ethanol. If the government finally decides to raise the blend ratio as planned (and if it would be exclusively for the sugar industry, excluding grain ethanol companies), an equivalent of 200,000-220,000 tons of sugar could be used. The sector would also have to export a significantly larger volume than what it would like to, as exports will probably be done at a loss (at current prices, the cost of production of raw sugar is approximately US\$430 per ton, with a freight cost to port of US\$110 per ton, and export market price is about US\$270 per ton). There are doubts about the implementation of the higher bioethanol mix mandate and also about the level of exports. Some contacts also indicate that the government might provide financial help to the sector through some official bank. In general, the sector in the past has had difficulties to come up with agreements and coordinated efforts. However, the situation is so delicate that some contacts are optimistic about the extreme need of reaching some solution.

The price of a kilo of sugar in a local supermarket ranges between AR\$8.50 pesos and 12 pesos (including a 21 percent VAT). The government still demands large producers to supply some 10,000 tons per month of refined sugar at a special low price.

There is one mill in Argentina which produces organic sugar with a production capacity of 40,000 tons a year. Due to the complicated situation in world markets, this mill is now producing upon demand. Production and exports for 2015/16 are forecast at approximately 25,000 tons.

Consumption

Argentine sugar consumption for 2015/16 is projected at 1.8 million tons (raw value), a marginal drop from the previous season. There are two factors that explain the drop: (1) the country's economic recession, and (2) a large local company started operating a new plant of fructose in Cordoba province. Its production is expected to substitute the equivalent of 50,000 tons of sugar. The increased use of lower calorie sweeteners is also limiting the recovery of sugar demand. The use of sugar in Argentina is currently being criticized as unhealthy, with campaigns promoting a more limited consumption.

There is no official data on fructose production in Argentina. However, contacts indicate that its production has been expanding lately due to new investments, reaching an estimate total production of 450,000 tons equivalent of sugar.

The food/beverage industries account for approximately 70 percent of the domestic demand and household consumption, largely via purchases of 1 kilo sugar bags, accounts for the remainder.

Trade

Argentine sugar exports for 2015/16 are forecast at 400,000 tons of sugar. However, this level could be significantly higher or lower. The excess carry in stock from 2014/15, an expected large production in 2015/16, the delicate financial situation of many local mills and low domestic and world sugar prices have put the sector in a very delicate situation. For these reasons, the sector will need to significantly reduce sugar stocks: some efforts are under way to increase the use of bioethanol in order to at least support domestic prices. However, significant export volumes will be an essential part of this stock-reduction plan. At current prices, all exports will lead to a significant loss.

Local traders have uncertainty on the final volume for 2015/16. At this time, they indicate that Argentina has secured sugar exports for nearly 150,000 tons: refined sugar to Chile for about 50-60,000 tons, facing strong competition from Colombian and Guatemalan sugar; 45-50,000 tons of raw sugar to fulfil the US sugar quota which seems to be the best option; 10-15,000 tons of refined sugar to Uruguay, and 20-30,000 tons of sugar to other world markets.

In early 2013, the province of Tucuman, under provincial Law 8573 created the IPAAT, Tucuman Sugar and Alcohol Promotion Institute by which it determines each year how much sugar should be exported by provincial sugarcane producers and sugar mills to balance the market. It withholds the percentage of sugar as a guarantee that the sugar is exported. If not exported by a given date (this year it will be April 15, 2015), the IPAAT will auction the retained sugar. In crop year 2014/15, this institute determined that Tucuman had to export 22 percent of the total production, resulting in 179,000 tons. To date, these exports have totaled 90,000 tons, plus 31,000 in customs ready to go.

Stocks

Ending stocks for crop 2015/16 are forecast at 356,000 tons, raw value. However, these stocks will depend on the final volume produced and final exports (see Trade section). This level of stocks is very large, somewhat larger than crop 2014/15, which imposes a strong downward pressure on domestic sugar prices.

Most stocks are in the hands of the sugar mills and just a small portion in the hands of producers and sugar distributors.

Policy

In 2012/13 high sugar stocks, low exports and declining prices, made the Governor of the province of Tucuman, which produces over 60 percent of the country's total and has over 6,000 small and medium cane producers pass Law 8573 to organize the sugar market in the province. The law created the IPAAT, Tucuman Sugar and Alcohol Promotion Institute, run by a board with representatives from the provincial government, the mills and the farmers. This board estimates production, stocks, and domestic consumption and mandates mills to hold a share of their sugar which they will have to export. By creating this entity the Provincial government hoped to balance the market and protect domestic sugar prices from falling significantly as has happened in the past without an orderly market. In crop 2014/15 Tucuman producers and mills exported a significant lower volume than what they should have, domestic prices did not recover and some sugarcane representatives have left the institute's board of directors.

In 2010 the federal government came to an agreement with local mills to sell six percent of the sugar marketed domestically at low prices. This volume represents approximately 10,000 tons a month, under the Domino brand and it is mainly sold in supermarkets in the city of Buenos Aires. The current price at the retail level is approximately AR\$8.50 pesos per kilo.

Statistical Tables

Sugar, Centrifugal Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	May 2013		May 2014		May 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	444	444	141	141	0	306
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1,780	1,780	2,050	2,150	0	2,250
Total Sugar Production	1,780	1,780	2,050	2,150	0	2,250
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	2,224	2,224	2,191	2,291	0	2,556

Raw Exports	103	103	70	70	0	200
Refined Exp.(Raw Val)	130	130	70	65	0	200
Total Exports	233	233	140	135	0	400
Human Dom. Consumption	1,840	1,840	1,840	1,840	0	1,790
Other Disappearance	10	10	10	10	0	10
Total Use	1,850	1,850	1,850	1,850	0	1,800
Ending Stocks	141	141	201	306	0	356
Total Distribution	2,224	2,224	2,191	2,291	0	2,556
1000 MT						

Sugar Cane for Centrifugal Market Begin Year Argentina	2013/2014		2014/2015		2015/2016	
	Jun 2013		Jun 2014		Jun 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	380	380	365	370	0	370
Area Harvested	353	353	360	360	0	360
Production	20,300	20,300	22,000	22,000	0	25,000
Total Supply	20,300	20,300	22,000	22,000	0	25,000
Utilization for Sugar	17,500	17,500	18,800	18,800	0	21,600
Utilization for Alcohol	2,800	2,800	3,200	3,200	0	3,400
Total Utilization	20,300	20,300	22,000	22,000	0	25,000
1000 HA, 1000 MT						