

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Sugar Annual

2017

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Report Highlights:

Argentine sugar production for 2017/18 is forecast at 1.9 million tons (raw basis), a decline of 6 percent over the previous season. Weather conditions so far have not been great for cane production which is expecting lower yields at both the farm and the industrial levels. The equivalent of sugarcane for bioethanol production is expected to remain virtually unchanged from last year. Domestic consumption is projected at 1.75 million tons (raw basis), a slight increase from the previous season as the local economy is expected to expand. Exports are forecast at 150,000 tons, the second lowest in more than 15 years. Local traders believe that the US tariff rate quota will be fulfilled.

Production: Argentine sugar production for crop 2017/18 is forecast at 1.9 million tons (raw sugar basis), the lowest level since 2013/14 (however, we need to take into account that the equivalent of about 540,000 tons of raw sugar are forecast to be produced into bioethanol to fulfill the local biofuels mandate). Although the country's total harvested area is expected to grow to 365,000 hectares, there is great uncertainty over final output as the season has experienced weather that has not been the best for production. Weather conditions in the next 4-5 months will be crucial in defining the final output.

Tucuman, the main sugar producing province, with almost 2/3 of the country's sugar production, had an unusually dry and hot summer (December and January) which local agronomists believe has already caused a negative impact on yields. February had normal weather, but in the following two months it rained significantly with very cloudy skies. The situation in the Northern provinces of Salta and Jujuy is somewhat similar, with excess soil moisture. Local agronomists indicate that the sugarcane maturity is delayed and that plantations would ideally need a full month of sunshine and warm weather to improve yields, both at the farm and industrial levels. A major variable will be the potential incidence of frosts. Argentina's sugarcane region is normally impacted with frosts every two years. However, the past three crop seasons progressed without them. If the harvest in winter proceeds under normal conditions, sugarcane and sugar production for crop season 2017/18 is projected to be sufficient to fulfill domestic sugar needs and the local mandate for bioethanol, leaving a small surplus for exports of sugar. However, if frosts or excessive rains emerge in the next 3-4 months, production could be limited. If production is constrained, sugar supplies for domestic human consumption, bioethanol, and exports would be significantly shifted by the sugar complex. Most analysts believe that sugar exports could be the most affected.

Another important factor to take into account is the area left unharvested. A delayed crop season will most likely force mills to end the harvest season late in the year (November/December), which is normally the rainy season. There is also a large mill in Salta province that has serious problems with labor unions and in the past few seasons was unable to harvest its entire crop. Tucuman province is expected to reduce 2017/2018 planted area thanks to the improved economic situation of individual producers. Due to greater earnings and better conditions, many producers are replanting the fields which they did not replant in the past 2-3 years because of low sugar prices and scarce returns. This reinvestment in operations is expected to result in an increase in 2018/2019 harvested area while producers adjust to their new situation in the current season. Cane plantations in Argentina are normally replanted every 5-6 years (ideally, 20 percent per year).

Tucuman has over 6,000 cane producers, with many of them with less than 50 hectares each. There are several large independent producers as well as several mills which produce on their own land. Tucuman has 15 sugar mills. Salta province has 2 mills while there are 3 in Jujuy. Most of these are large companies who own on average, 90-95 percent of the cane they crush. There are also 2-3 very small mills in Santa Fe and Misiones.

Sugar cane production in the last 3-4 seasons had tight or negative profitability due to lower local and world sugar prices, and high production costs in dollar terms. However, last year, economic conditions for the 2016/17 crop changed dramatically, bringing much needed economic relief to the sector. The main developments that impacted the sector favorably were: 1) the strong devaluation experienced in December 2015, with the new government in place; 2) the significant increase in world sugar prices; 3) as of April 2016, the sugar sector received an additional 2 percentage points in the bioethanol official mandate; and 4) in December 2015 the government eliminated the 5 percent export tax on sugar. These policy changes and higher world prices helped Argentina export its sugar surplus which was putting downward pressure on domestic market prices. Sugar prices in most of 2016/17 crop season saw a significant increase from the previous year. The current price, before the new crop season begins, is roughly 470 Argentine pesos per 50-kilo bags of white sugar at the mill in Tucuman (including VAT). This price is profitable for farmers and the industry.

Large producers have used a good level of technology (inputs) for the crop which is expected to be harvested as of May 2017, but most small farmers are still struggling with economic problems from past seasons. The industrial sector is investing primarily in expanding capacity for their bioethanol business. Three mills in Tucuman will soon inaugurate dehydrators. Another mill launched a large investment to produce energy for sell to the local grid.

Consumption: Sugar demand in the local market for 2017/18 is forecast at a total of 1.74 million tons (raw basis), a marginal increase from the 2016/17 season, due to expected growth in the domestic economy.

Post lowers the domestic demand for 2016/17 to 1.7 million tons as the local economy did not rebound as most economists expected. Food and beverage sales in supermarkets dropped. Many contacts indicate that the drop could have been even bigger. However, other contacts indicate that due to the elimination of the 20 percent export tax on corn in December 2015, beverage manufacturers preferred to use sugar than high fructose corn syrup which was more expensive due to higher corn prices in the local market.

Household use of 1-kilo bags and the non-alcoholic beverage industry are the main channels by which Argentines consume sugar. However, the use of less costly sweeteners continues to grow.

Trade: Sugar exports for 2017/18 are projected at 150,000 tons (raw basis). This is the second lowest volume since 2002/03. The expansion of the local bioethanol mandate, initiated in 2010, currently at 12 percent mix in gasoline, is shifting significant sugarcane volumes towards produce alcohol. In fact, there is significant speculation indicating that the current government would like to raise the mandate to 15 percent and eventually to about 25 percent as it is in Brazil and Paraguay. If that would be the case, both the sugarcane and corn industries would have to expand their industrial capacity (and feedstock production in the case of sugarcane) significantly. Sugar exports could remain low, but this will also depend on world sugar prices and official ethanol prices.

Of the total exports for 2017/18, contacts estimate that about 50,000 tons will be raw sugar shipped primarily to the US market under the TRQ. Some 80-100,000 tons of refined sugar is expected to be exported primarily to neighboring Chile (which in CY2016 purchased 153,000 tons from Argentina). Some small volumes of sugar could be shipped to neighboring Uruguay.

Stocks: Ending stocks for 2017/18 are expected to be low at 148,000 tons (raw basis), the equivalent to about 1 month’s domestic use. Stocks dropped significantly in 2016/17 due to large exports and more sugarcane used for bioethanol production.

Statistical Tables

Sugar, Centrifugal Market Begin Year	2015/2016		2016/2017		2017/2018	
	May 2015		May 2016		May 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Beginning Stocks	328	328	398	403	0	148
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2060	2060	2100	2025	0	1900

Total Sugar Production	2060	2060	2100	2025	0	1900
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	2388	2388	2498	2428	0	2048
Raw Exports	139	92	400	330	0	50
Refined Exp.(Raw Val)	91	133	150	250	0	100
Total Exports	230	225	550	580	0	150
Human Dom. Consumption	1750	1750	1780	1690	0	1740
Other Disappearance	10	10	10	10	0	10
Total Use	1760	1760	1790	1700	0	1750
Ending Stocks	398	403	158	148	0	148
Total Distribution	2388	2388	2498	2428	0	2048

(1000 MT)

Sugar Cane for Centrifugal Market Begin Year	2015/2016		2016/2017		2017/2018	
	May 2015		May 2016		May 2017	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	385	385	385	380	0	375
Area Harvested	340	340	375	360	0	365
Production	22200	22200	25000	23500	0	22500
Total Supply	22200	22200	25000	23500	0	22500
Utilization for Sugar	17900	17900	19150	18600	0	17500
Utilizatn for Alcohol	4300	4300	5850	4900	0	5000
Total Utilization	22200	22200	25000	23500	0	22500

(1000 HA) ,(1000 MT)