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Honduras

Sugar Annual

2016

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Report Highlights:

Sugar production and exports are projected to increase in marketing year 2016/17. It is expected that the forecasted weather conditions of La Nina will bring more rain. The meteorological improvement is anticipated to improve production and help recover the loss of production due to the severe drought during marketing year 2015/2016.

Executive Summary:

In Honduras, the production, commerce, and distribution of sugar are controlled by the private sector. Cane sugar production is carried out on 58,000 hectares (ha.) of land. The sugar mills own around 65 percent of the land and the remainder is owned by independent producers.

Cane sugar production is projected at 544,000 metric tons (MT) for marketing year (MY) 2016/2017. Sugarcane production is estimated at 5.1 million MT for the same marketing year. It is expected that the forecasted weather conditions of La Nina will bring more rain to improve production. MY 2015/2016 had a lower production than anticipated due to the drought that limited sugarcane growth.

Marketing year 2016/2017 sugar exports forecast is 196,000 MT due to predicted improvement of weather conditions with La Nina phenomenon. Domestic sugar consumption is anticipated up at 348,000 MT in MY 2016/2017. During MY 2015/2016 domestic consumption was 341,000 MT as the domestic price was higher than the international price. The increases are also due to population growth and industrial use.

The sugar industry is represented by the Honduran Sugar Producers Association (APAH), established in 1976. All seven sugar mills are members of APAH. These mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH. CISA guarantees the domestic market's sugar supply for the entire year and guarantees a sugar standard price for the country.

Honduras complies with shipping its full tariff rate allocation to the United States, the World Trade Organization, European Union, and Taiwan. The free trade agreement with Canada provided a tariff rate quota. However, sugar has not been exported because documents are still needed to be defined for Honduras to export to Canada. According to the Central Bank of Honduras preliminary data, sugar exports reached \$61 million in 2015.

The sugar mills produce the energy used during the November – May harvest months. The excess energy generated is sold to the Government of Honduras (GOH)'s National Enterprise of Electric Energy (ENEE). The sugar mills supply about 12 percent of the renewable energy produced in Honduras. The decrease from 15 percent in 2015 to 12 is due to the growth of renewable energy projects such as wind and solar energy production in Honduras. The energy sold to ENEE is cheaper than the market price; however, from June to October there is no sugarcane harvest, which limits energy production. In 2015, Honduras saved about \$200 million per year using the energy generated by sugarcane bagasse.

Production:

Sugarcane

The acreage of sugarcane planting forecast for MY 2016/2017 is expected to be 58,000 ha. The MY 2015/2016 crop did not grow as expected due to drought. The southern part of the country was the most affected; in particular, two sugar mills, which provided 40 percent of the national production. The drought was so severe that irrigation systems could not compensate. Water sources dried, which affected sprinkler irrigation and drip irrigation systems as water sediments covered ducts.

Sugarcane is produced in the northwest, central, and southern parts of Honduras; of which 65 percent is owned by the sugar mills; and independent producers own 35 percent. The percentage of land under production by independent producers has decreased by five percent since the MY 2014/2015 harvest. This is due to the increase of production costs, new taxes and the effects of drought; which made the independent producers to prefer rent their land to the sugar mills. Among the independent producers, 55 percent are small producers (1-18 ha.), 22 percent medium producers (18-53 ha.), and 23 percent large producers with more than 53 hectares.

Sugarcane production for MY 2016/2017 is estimated at 5.1 million MT. The increase is due to the forecast of better weather conditions with La Nina phenomenon, which could bring more rain during the sugarcane growth period (June-September). MY 2015/2016 saw lower production than expected due to the drought that limited sugarcane growth. Sugar mills continue to enhance their practices to obtain higher yields, including the evaluation of seeds, providing technical assistance and irrigation systems to independent producers. The mill technicians are members of the Association of Central American Sugar Technicians. Through this association, members share information and technological advances.

Sugar mills are expected to improve yields, and invest in equipment to meet export opportunities resulting from trade agreements. The forecast takes also into account the legal compliance of ownership of the sugar mills and producer's land.

Sugar

Sugar production is in hands of the private sector. The sugar industry is comprised of seven processors (sugar mills) and 11 warehouses for sugar storage. Production for MY 2016/2017 is projected to be 544,000 MT. It is expected that the forecasted weather conditions of La Nina will bring more rain to improve production. MY 2015/2016 had a lower production than anticipated, due to the drought that limited sugarcane growth.

The sugar industry has invested in the improvement of agricultural yields, infrastructure, and equipment, thus increasing refining capacity and improving efficiency. They are working at 95-100 percent of their productive capacity. The mills are investing in response to the demand for sugar in the market. The recovery rate of sucrose from sugarcane is between 9 and 10 percent. From the area harvested, 96 percent of the sugarcane enters into production and 4 percent is kept for research and

replanting. The main factors that affect sugar production in Honduras are droughts, floods, insecurity, land tenure, and access to credit.

Independent producers were affected by the drought as most do not have irrigation systems. In addition, there was increase of production costs, new taxes, the financial crisis and additional bank requirements, which have reduced available credit. Producers are faced with a “high-risk” classification, which banks routinely give to loans within the agricultural sector because of the lack of collateral and bad credit history within the sector. Sugar mills assist independent producers to obtain credit by being solidarity guarantees of the producers. APAH and the Honduran Sugar Producers Federation (FEHPROCA) have organized a Sugarcane Committee. The objective of the Committee is to provide support to independent producers to acquire access to credit with banks.

In 2005, the sugar mills created the foundation FUNAZUCAR. FUNAZUCAR develops programs to deliver incentives to sugarcane workers and assist the communities where the sugar mills are located. They implement literacy programs for young people and adults, trainings to micro enterprises, health care, school meals, educational materials, and another type of donations. Computers and solar panels have been installed in schools and infrastructure repairs to classrooms.

The sugar mills provide independent producers harvesting equipment, road maintenance, in addition to teacher salaries for schools in the sugar mill areas where producers live. Credit for small enterprises is also provided in the communities where the sugar mills are located.

APAH’s initiative and the FUNAZUCAR contributed to combatting child labor. This was accomplished by including in producers’ contracts the prohibition of hiring children and by placing signs in buses and public areas about this prohibition. The sugar mills supervise the compliance of this regulation in the harvest fields.

Consumption:

Domestic sugar consumption is estimated at 348,000 MT in MY 2016/2017. The increase is due to population growth and industrial use. During MY 2015/2016 consumption was 341,000 MT.

Per capita sugar consumption is estimated at 80 pounds per person of which 52 percent is for industrial use in beverages, candy factories, and baked goods. The remaining 48 percent is for direct use by consumers. The consumption of alternative sweeteners will have a minimum impact. Most of the population uses sugar per their purchasing power, since the price is lower than the alternatives.

The Secretariat of Economic Development (previously known as Ministry of Industry and Trade –SIC) must authorize any change in the sugar price (wholesale), as sugar is considered a basic commodity that affects the cost of living.

<p style="text-align: center;">Average Sugar Prices for Plantation White (Standard) and Refined Sugar Honduras, 2015</p>

<i>US\$/pound</i>		
Sale place	Plantation white (Standard)	Refined
Wholesale	0.31	0.33
Consumer	0.39	0.42

Source: Honduran Sugar Producers Association (APAH)

The domestic consumer price of sugar (plantation white) increased slightly over the past year largely due to higher production costs and the end of tax exemptions in the agricultural sector. The Ordering of the Public Finance System, Exemptions Control, and Measures against Tax Evasion Law, eliminated previous exemptions on agricultural equipment and outsourcing services. Wholesale prices, however, declined slightly due to the depreciation of the Lempira against the dollar.

Trade:

The forecast for sugar exports for MY 2016/2017 is 196,000 MT, due to predicted improvement of weather conditions with La Nina phenomenon. The sugar industry will continue investing to improve sugarcane yields, milling technology, and refining capacity. APAH foresees that sugar mills will expand and there will be new investments to increase exports. This is due to comply with free trade agreement (FTA) quotas.

Honduras has FTA's which opened markets for sugar with the European Union (EU) and Taiwan. The FTA with the EU approved sugar tariff rate quota (TRQ) of 20,914 MT for 2015. The increase was due to a sugar shortage in the EU market. The EU TRQ for 2016 is 20,250 MT with an increase of 262 MT each year. Exports to the EU began in the middle of 2013. The FTA with Taiwan provided a standard TRQ of 50,000 MT annually beginning in 2014. The FTA with Canada was ratified and will allow 2,500 MT sugar TRQ the first year; and 5,000 MT TRQ from the second year on. However, documents are pending to be defined for Honduras to export to Canada. The FTA with Mexico has been ratified, but sugar TRQs were not negotiated; however, there was an agreement that Honduras would have preferential access to 10 percent of Mexico's no-supply quota.

The country complies with shipping its full tariff rate allocation with the United States, World Trade Organization, the European Union, and Taiwan quotas. After these markets have been supplied, the sugar mills will then proceed to export to the rest of the world. According to the Central Bank of Honduras, sugar exports reached \$61 million in 2015, which is a 19 percent drop compared to \$75 million in the previous year.

It should be noted that countries of the Central American region cannot export or import cane sugar within the region. This is an agreement contained in Annex A of the Central American General Integration Treaty. All of Central American cane sugar surplus is exported out of the region.

Honduras does not have export taxes: they were eliminated in order to follow WTO recommendations.

The main destinations for Honduras's sugar exports in Calendar year 2015 were the United States, Chile, Canada, Holland, Ivory Coast, Haiti, Jamaica, Trinidad and Tobago, Puerto Rico and Saint Vincent & Grenadines. The volume of exports decreased by eleven percent in 2015 compared to the previous year due to the lack of supply for the effects of the drought.

Honduras - Sugar, Centrifugal Exports, 2015

Country	Metric Tons
United States	52,600
Chile	25,200
Canada	22,600
Holland	20,900
Ivory Coast	15,000
Haiti	10,000
Jamaica	5,400
Trinidad & Tobago	5,300
Puerto Rico	1,500
Saint Vincent & Grenadines	200
Others	600
TOTAL	159,300

Source: Central Bank of Honduras. Preliminary data.

The import tariff for raw sugar and plantation white (standard) is 40 percent (consumption tax is not charged). The import tariff for refined sugar is 15 percent plus a 15 percent consumption tax. By law, quality restrictions require Vitamin A to be added to sugar for human consumption, which is done by the Honduran sugar industry. The import tariff for raw sugar averages \$0.22 per kilogram. The import tariff for refined sugar is \$0.18 per kilogram, based on average U.S. sugar contract #16 prices.

Honduras - Sugar, Centrifugal Imports, 2015

Country	Metric Tons
United States	200
Others	100
TOTAL	300

Source: Central Bank of Honduras. Preliminary data.

NOTE: The exports and imports data in the production, supply, and distribution (PS&D) tables differ from the above export and import matrices. The difference is because of the manner of calculation of sugar export statistics by APAH and the Central Bank of Honduras: APAH export statistics include sugar which has been contracted for export, while the statistics of the Central Bank of Honduras only include sugar which has already been physically exported from Honduras.

Stocks:

Stocks are owned by seven processors (sugar mills) and their sugar is stored in CISA warehouses that are located in Tegucigalpa and San Pedro Sula. Stock levels are expected to remain at normal levels in MY 2016/2017.

Policy:

The Government of Honduras (GOH)'s Strategic Plan 2014-2018 has the national objective of: "Achieve economic, accelerated, inclusive and sustainable growth, in order to increase employment and decrease poverty through the promotion of investments, competitiveness, boost foreign trade and the support to the development of small business at urban and rural level." In order to accomplish this objective the GOH has a line of action to develop renewable energy, including the production and industrialization of sugarcane – the harvesting of which will increase rural incomes. The GOH has expressed interest in using sugar to produce electricity, biogas, and ethanol.

The GOH sees the usage of sugarcane cultivation for biofuels and bioenergy as a way to advance energy self-efficiency, reduce expensive fuel imports, lower electricity costs, create rural employment, and reduce environmental contamination. Honduras has the 2007 Law for Production and Consumption of Biofuels to provide biofuel producers fiscal incentives, such as exemptions from customs tariff, corporate taxes, and other related taxes for 12 years. APAH lobbied the Honduran Congress for the approval of such law, and continues to support its future implementation. The regulation for the implementation of the law has been written, and it has been decided to have a mix up to five percent of biofuel and ethanol, but details have yet to be finalized or implemented after nine years.

Sugar mills produce the energy that they use during the November – May harvest months through the use of bagasse, generating 130 megawatts per hour with a potential of 344 megawatts of electricity. The excess energy generated is sold to the GOH's National Enterprise of Electric Energy (ENEE). Sugar mills supply about 12 percent of the renewable energy produced in Honduras. APAH indicated that the sugar mills sell the energy for \$0.07 per kilowatt versus the \$0.25 per kilowatt provided by other energy companies. The price the sugar mills sell the energy to ENEE is less expensive than the market price. From June to October, however, there is no sugarcane harvest, which limits energy production. Honduras saves about \$200 million per year using the energy generated by sugarcane bagasse.

The Secretariat of Agriculture and Livestock, the Secretariat of Economic Development, sugar mills, and independent producers created the National Sugar Council through the 2005 Decree 161-2005. The objective of the National Sugar Council is to regulate matters between independent producers and sugar mills related to land tenure and technical assistance.

Marketing:

The seven sugar mills sell their production to a central warehouse, Sugar Miller's Central (CISA), which is owned by APAH and has 11 warehouses in the country. CISA distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging. CISA has also increased its distribution areas in the northern region of the country. CISA has changed, however, to 50

kilogram bags (equivalent to 110 pounds) to bring Honduras in line with neighboring countries. It also has small packages to offer to restaurants and hotels, as well as at the retail level.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Honduras	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	239	239	239	239	0	239
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	517	515	544	507	0	544
Total Sugar Production	517	515	544	507	0	544
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	756	754	783	746	0	783
Raw Exports	173	176	190	166	0	196

Refined Exp. (Raw Val)	0	0	0	0	0	0
Total Exports	173	176	190	166	0	196
Human Dom. Consumption	344	339	355	341	0	348
Other Disappearance	0	0	0	0	0	0
Total Use	344	339	355	341	0	348
Ending Stocks	239	239	238	239	0	239
Total Distribution	756	754	783	746	0	783
1000 MT						

Sugar Cane for Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Sep 2014		Sep 2015		Sep 2016	
Honduras	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	58	55	61	55	0	58
Area Harvested	57	53	59	53	0	54
Production	5,403	4,881	5,634	4,809	0	5,150
Total Supply	5,403	4,881	5,634	4,809	0	5,150
Utilization for Sugar	5,403	4,881	5,634	4,809	0	5,150
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	5,403	4,881	5,634	4,809	0	5,150
1000 HA, 1000 MT						