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Honduras

Sugar Annual

2015 production up, pending weather conditions

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Report Highlights:

Sugar production and exports are projected up in marketing year 2015/16. The increase is based on forecasts of improved yields due to better climatic conditions. The Government of Honduras (GOH) created the National Program for the Social and Community Development for the Families and Producers of Sugar Cane in 2014. The objective of the program is to provide incentives and funds for sugarcane planting and to promote sugar mill development in the eastern department of Olancho. In April 2015, the GOH issued a bid for a feasibility study to establish sugarcane plantations in support of two sugar mills for the production of sugar, energy, biogas, and ethanol.

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 60 percent of the land and the remainder is owned by independent producers.

Cane sugar production is projected up at 544,000 metric tons (MT) for marketing year (MY) 2015/2016. The increase is based on forecasts of yield improvement, due to better climatic conditions compared to previous post estimate. In addition, there is an increase of approximately 3,000 ha of area planted. Marketing year 2015/2016 sugarcane production is estimated up at 5.6 million MT.

Marketing year 2015/2016 sugar exports forecast is increased from post's previous estimate at 190,000 MT. Domestic sugar consumption is anticipated up at 355,000 MT in MY 2015/2016. The increase is due to the low international price of sugar. This has been an incentive for the sugar mills to supply the domestic market. In addition, the increase is due to population growth, industrial use, and controlled domestic refined sugar prices.

The sugar industry is represented by the Honduran Sugar Producers Association (APAH), created 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 distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging. 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 US\$75 million in 2014.

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 15 percent of the renewable energy produced in Honduras. The decrease from 20 percent in previous years to 15 is due to the growth of Eolic 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. Honduras saved in 2014 about \$300 million per year using the energy generated by sugarcane bagasse.

Production:

Sugarcane

The acreage of sugarcane planting forecast for MY 2015/2016 is expected up by 3,000 hectares bringing a total of 61,000 ha. Sugarcane planting began expanding in MY 2014/2015. Sugarcane is produced in the northwest, central, and southern parts of Honduras; of which 60 percent is owned by the sugar mills; and independent producers own 40 percent. 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. Independent sugar producers have increased their area of production gradually after the 1992 Agricultural Modernization Law which limited land expansion of sugar mills.

Sugarcane MY 2015/2016 production is estimated up to 5.6 million MT. The increase is due to forecasts of more rain during the sugarcane growth period (June-September). Sugar mills continue to enhance their practices to obtain higher yields, including the evaluation of seeds and providing technical assistance 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.

The areas planted and harvested in MY 2015/2016 are forecasted up from post's previous year estimate. Sugar mills are expected to expand planting areas, improve yields, and invest in equipment to meet export opportunities resulting from trade agreements. The forecast looks forward to the legal compliance of land security.

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 2015/2016 is forecasted at 544,000 MT, up from the previous estimate. The increase in production is based on forecasts of improved climatic conditions.

The sugar industry has been investing 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 rains, floods, droughts, insecurity, land tenure, and access to credit.

Independent producers were affected by the financial crisis and now 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 Sugar Producers Federation (FEPROCA) 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 expected to increase in MY 2015/2016 to 355,000 MT. The increase is due to the low international price of sugar. This has been an incentive for the sugar mills to supply the domestic market. It is not profitable for them to export sugar since the production costs are higher than the sale price. In addition, the increase is due to population growth, industrial use, and controlled domestic refined sugar prices.

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>Average Sugar Prices for Plantation White (Standard) and Refined Sugar Honduras, 2014 <i>US\$/pound</i></p>		
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 2015/2016 is 190,000 MT, due to the estimated decrease in production. 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 quotas (TRQ) of 19,726 MT for 2014, 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 \$75 million in 2014, which denotes an increase of eight percent compared to 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 2014 were the United States, Taiwan, Canada, Holland, Ghana, Haiti, Trinidad and Tobago, Jamaica, Dominican Republic, Saint Vincent & Grenadines, and Saint Lucia. The volume of exports increased by 30 percent in 2014 compared to the previous year. The following chart provides main exports by country.

Honduras - Sugar, Centrifugal Exports, 2014

Country	Metric Tons
United States	50,857
Taiwan	35,600
Canada	21,101
Holland	18,836
Ghana	15,000
Haiti	9,295
Trinidad & Tobago	6,905
Jamaica	7,704
Dominican Republic	3,467
Saint Vincent & Grenadines	2,125
Saint Lucia	1,512
Others	9,680
TOTAL	182,082

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 12 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 US\$0.20 per kilogram. The import tariff for refined sugar is US\$0.18 per kilogram, based on average U.S. sugar contract #16 prices. The chart below provides imports by country:

Honduras - Sugar, Centrifugal Imports, 2014

Country	Metric Tons
United States	97
Others	151
TOTAL	249

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 2015/2016.

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.

In 2014, the Honduran government publicized a new "National Program of Reactivation of the Agri-food Sector of Honduras" created through Executive Decree PCM-017-2014. Chapter V of the Decree was dedicated to the National Program for the Social and Community Development for the Families and Producers of Sugar Cane, which will focus its efforts on increasing sugar production. The objective of the program is to provide credit incentives and funds for sugarcane planting and establishing sugar mills in the eastern department of Olancho. The program will receive support through the Trust Fund for the Reactivation of the Agri-food Sector (FIRSA by its acronym in Spanish) managed by the Honduran Bank for Production and Housing (BANHPROVI). In April 2015, BANHPROVI issued a bid for a feasibility study to establish sugarcane plantations in support of two sugar mills in Olancho for the production of sugar, energy, biogas, and ethanol. The investment will ultimately come from the GOH and the private sector, though financial projections for the plan are still being finalized and projected interventions are in development.

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. The GOH is also using 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 more than eight years.

One sugar mill completed a study of the infrastructure and funding requirements to build an ethanol processing plant. According to data from 2008, the cost would be about around \$40 million if the plant were installed in an existing sugar mill. If a new sugar mill and ethanol processing plant were built, the cost would be between \$170-200 million. Honduras does not have policies regarding development of competing commodities.

Sugar mills produce the energy that they use during the November – May harvest months through the use of bagasse, generating 130 Megawatts per hour (Mwh) with a potential of 344 Mwh of electricity. The excess energy generated is sold to the GOH's National Enterprise of Electric Energy (ENEE). Sugar mills supply about 15 percent of the renewable energy produced in Honduras. APAH indicated that the sugar mills sell the energy for US\$0.07 per Kilowatt versus the US\$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 \$300 million per year using the energy generated by sugarcane bagasse.

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.

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.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
Honduras	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	239	239	238	239	0	239
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	530	516	567	517	0	544
Total Sugar Production	530	516	567	517	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	769	755	805	756	0	783

Raw Exports	218	190	248	173	0	190
Refined Exp. (Raw Val)	0	0	0	0	0	0
Total Exports	218	190	248	173	0	190
Human Dom. Consumption	313	326	319	344	0	355
Other Disappearance	0	0	0	0	0	0
Total Use	313	326	319	344	0	355
Ending Stocks	238	239	238	239	0	238
Total Distribution	769	755	805	756	0	783
1000 MT						

Sugar Cane for Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Sep 2013		Sep 2014		Sep 2015	
Honduras	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	58	55	60	58	0	61
Area Harvested	55	54	58	57	0	59
Production	5,439	5,106	5,814	5,403	0	5,634
Total Supply	5,439	5,106	5,814	5,403	0	5,634
Utilization for Sugar	5,439	5,106	5,814	5,403	0	5,634
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	5,439	5,106	5,814	5,403	0	5,634
1000 HA, 1000 MT						