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Report Highlights:

Sugar production in marketing year (MY) 22 is estimated at 785,000 metric tons (MT), while production for MY21 has decreased to 780,000. Improving international prices have eased the financial pressure exerted by the COVID-19 pandemic on the sugar sector. However, inflationary concerns due to the Ukrainian crisis has led the Government of El Salvador (GOES) to include sugar in a basket of products with a reduction to zero percent import duty for a period of one year.

Executive Summary:

Improved seeds, more access to irrigation systems, continued investment in energy production, new milling technology, and rum production will continue to benefit El Salvador's sugar industry over the next three to five years. However, uncertain future international prices and abnormal weather conditions will continue to be obstacles for the sector.

Sugarcane production for the MY22 harvest is estimated at 6.9 million metric tons (MMT). Based on new data provided by the Salvadoran Sugar Council (CONSAA), production for MY21 has been revised downward to 6.87 MMT.

Boosted by attractive internal prices, exports under free trade agreements and additional access to the U.S. market, the sector is recovering after sustained economic losses due to natural disasters, high transportation costs and lack of government assistance. Ultimately the success of the industry will depend on continued improvements in yields, increased diversification into energy co-generation projects and final approval of an ethanol law that encourages investment. However, increased crime rates including extortions, uncontrolled sugarcane burning, higher input costs (specially fertilizers), possible increases in the minimum wage, increased transportation costs and climate change, and now the economic impact caused by COVID-19, and the Ukraine conflict, will continue to be major concerns for the sector. In addition, the Government of El Salvador has included sugar in the basket of products that had their import tariffs reduced to zero to combat inflation. (See Policy)

Production:

Sugar production in MY22 is estimated at 785,000 metric tons (MT). Production continues to improve because of continued investments in irrigation, refining equipment and improved seeds. Estimated sugar production for MY21 has been decreased to 780,000 MT due to a reduction in planted area. New data provided by CONSAA show exports reaching 528,945 MT for MY21 and are estimated at 506,300 MT for MY22.

Recent production numbers compiled by FAS/El Salvador show that the MY22 sugarcane harvest is expected to reach 6.9 MMT. This production forecast is slightly higher than in MY21 because of a rebound in economic growth after the adverse effects of COVID-19 on the overall Salvadoran economy, including the sugar sector.

Planted area is expected to remain at 79,000 hectares during MY22 mainly due to a continued stabilization of producers joining the sector. Planted area could increase in the near future if the security situation improves in rural areas, sugar prices increase, and the ethanol production law is implemented. There are approximately 300,000 hectares of idle land in the country that could be devoted to increased sugarcane production. However, the Government of El Salvador (GOES) seems to be more focused on improving basic grain, vegetable, fruit, dairy and meat production through a national agricultural recovery program that was announced in the fourth quarter of 2021 by the President.

Grower prices continue to be set according to the sugar content of the cane. In 2019, CONSAA agreed to increase the share that producers receive of total sugar sales from 54.5 to 56 percent, with the other 44 percent going to the sugar mills. The mills distribute this sales income among sugar producers based on the amount of sugarcane provided. Continued investment in sugar mills has reduced downtime during the milling process, and increased sugar recovery rates to a more competitive position within the region.

The following are areas where the sugar industry continues working to improve sugar profitability:

- Increased extraction rates;
- Investment in irrigation systems;
- Diversification into energy generation;
- Improved sugarcane varieties;
- Research and technology exchange with other sugar producing countries;
- Introduction of pest and disease-resistant sugarcane varieties;
- Rum production;

- Coordination with law enforcement to diminish the impact of sugarcane burning and extortions from gangs.

Consumption:

Due to an already sluggish Salvadoran economy and now the added burden of the pandemic and the Ukraine conflict, domestic sugar consumption is expected to decrease reaching 277,000 MT in MY21. Post estimates that due a slight increase in sugar demand, mainly in the foodservice and confectionary sectors, consumption is forecast to increase to 278,000 MT in MY22.

Trade:

Exports for MY22 are expected to reach 506,300 MT; the export forecast for MY21 decreased to 528,945 MT due to lower sugarcane production as a result of unfavorable weather conditions in 2021, as well as to lower sugar demand due to COVID-19.

The GOES imposes a 40 percent ad-valorem import tariff on all sugar. The bound rate is 70 percent as the GOES considers sugar politically sensitive because it is an important driver of rural income and employment. Even though CAFTA-DR encouraged regional tariff harmonization to avoid triangulations and market disruptions, the Central American region still has not agreed on a harmonized import tariff for sugar. In August 2018, El Salvador joined the Customs Union with Guatemala and Honduras; however, sugar is not one of the products that will benefit from duty-free trade. However, due to inflationary pressure on the Salvadoran economy, in March 2021, the GOES decided to include sugar in the list of products that will enjoy a 0 percent import duty for a period of one year.

The United States, South Korea, China, and Taiwan are major destinations for Salvadoran sugar. Other export destinations in MY21 for Salvadoran sugar were Haiti, Italy, the United Kingdom and the Netherlands.

The decision by the GOES to break diplomatic relations with Taiwan and recognize China created enormous uncertainty in the sugar sector. El Salvador and Taiwan have a Free Trade Agreement (FTA) that includes favorable terms for Salvadoran sugar exports. However, in December 2018, the GOES notified Taiwan that El Salvador would withdraw from the FTA. The sugar sector appealed the decision to El Salvador's highest court and the withdrawal was halted. This unresolved situation generates uncertainty and continues to be a major issue between the sugar industry and the GOES administration that took office on June 1, 2019.

El Salvador also benefits from the World Trade Organization (WTO) quota that allows Salvadoran sugar duty-free entry to the United States. El Salvador was allocated 27,379 Metric Tons (MT) under the WTO quota for the period October 1, 2021 - September 30, 2022.

Export Trade Matrix El Salvador Centrifugal Sugar (Metric Tons)			
	MY		MY
Exports for:	2021		2022
U.S.	91,788	U.S.	87,860
Others		Others	
South Korea	191,788	South Korea	183,580
China	90,000	China	86,150
Taiwan	83,213	Taiwan	78,700
Haiti	22,296	Haiti	21,340
Italy	12,743	Italy	12,200
United Kingdom	11,569	United Kingdom	11,075
Netherlands	9,135	Netherlands	8,745
Peru	4,539	Peru	4,345
Belgium	2,795	Belgium	2,675
Total for Others	427,078		408,810

Others not Listed	10,079		9,360
Grand Total	528,945		506,300

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in MY22 are estimated at the same level as MY21, reaching 30,000 MT. Contraband sugar from neighboring countries is negligible and causes no disruption to the local market. The national sugar law states that all sugar sold locally must carry a safety seal provided by CONSAA.

Policy:

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A. Producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector; instead, limiting market access through import tariff protection continues to be the leading support mechanism.

Under the national sugar law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from government, sugar producers, and sugar mills.

A draft law for the production of alternative fuels, including ethanol, which was drafted in 2009, is still on hold. The sugar industry and the GOES have discussed setting a 10 percent blend for ethanol in gasoline, but the current administration has not enacted this law because it says it needs to analyze the impact on the environment and consumers. The ruling party currently enjoys a super-majority in the National Assembly, which provides the opportunity for this pending law to pass.

Due to the increase in inflation (6.7 % in 2021), the GOES passed a temporary law that decreases the import duty to zero percent for a list of basic products, including sugar. This law will be in force for 1 year beginning March 2021. Thus far there have not been any sugar imports derived from the reduction in the import duty and CONSAA does not foresee any sugar coming in to the market in the near future. Industry representatives cite the high cost of transportation and logistics and the requirement to add vitamin A to all sugar sold in the market as major roadblocks for sugar imports, even from within the Central American region. FAS/San Salvador will continue to monitor the data to detect any increases in sugar imports.

Production, Supply and Distribution

Sugar Cane for Centrifugal	2020/2021		2021/2022		2022/2023	
	Oct 2020		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Oct 2020		Oct 2021		Oct 2022	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	81	79	81	79	0	79
Area Harvested	80	78	80	78	0	78
Production	7112	6908	7150	6870	0	6910
Total Supply	7112	6908	7150	6870	0	6910
Utilization for Sugar	7112	6908	7150	6870	0	6910
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	7112	6908	7150	6870	0	6910
(1000 HA) ,(1000 MT)						
Sugar, Centrifugal	2020/2021		2021/2022		2022/2023	
	Oct 2020		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Oct 2020		Oct 2021		Oct 2022	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	55	55	34	33	0	30
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	809	784	815	780	0	785

Total Sugar Production	809	784	815	780	0	785
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	864	839	849	813	0	815
Raw Exports	465	464	456	435	0	436
Refined Exp.(Raw Val)	75	65	74	71	0	71
Total Exports	540	529	530	506	0	507
Human Dom. Consumption	290	277	291	277	0	278
Other Disappearance	0	0	0	0	0	0
Total Use	290	277	291	277		278
Ending Stocks	34	33	28	30	0	30
Total Distribution	864	839	849	813	0	815
(1000 MT)						

Attachments:

No Attachments