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Ecuador

Sugar Annual

El Niño Could Affect Ecuador's Sugar Production

Approved By:

Emiko Purdy

Prepared By:

Henry Vega and Mariano J. Beillard

Report Highlights:

FAS Quito forecasts Ecuador's total sugar production in marketing year (MY) 2014/15 at 615,000 metric tons (MT), up 38,000 MT or 6.5 percent from the MY 2013/14 estimate. Our MY 2014/15 forecast is subject to no major production disruptions induced by an El Niño event commencing in the third quarter of 2014. FAS Quito forecasts total consumption in MY 2014/15 at 604,000 MT, up 5,000 MT or 1 percent compared to the MY 2013/14 estimate of 599,000 MT. We forecasts sugar exports in MY 2014/15 at 13,000 MT, up 1,000 MT or 8 percent compared to the MY 2013/14 estimate of 12,000 MT.

Executive Summary:

FAS Quito forecasts Ecuador's total sugar production in marketing year (MY) 2014/15 (May/April) reaching 615,000 metric tons (MT), up some 38,000 MT or 6.5 percent from our MY 2013/14 estimate. We are estimating sugar production in MY 2013/14 coming in around 577,000 metric tons, or down some 55,000 MT or off nearly 9 percent compared the MY 2012/13 levels.

Our MY 2014/15 forecast is subject to no major production disruptions induced by an El Niño event commencing in the third quarter of 2014. Reportedly some meteorologists are anticipating the possibility of an El Niño that could rival the devastation wrought by the 1997/98 event. Since March 6, 2014, an El Niño watch has been in place. Reportedly there is now a 50 percent chance of an El Niño of any variety (i.e., weak, moderate or strong) occurring in 2014; normally there is a 33 percent chance of one occurring.

FAS Quito forecasts total human domestic consumption in MY 2014/15 at 604,000 MT, up some 5,000 MT or 1 percent compared to our MY 2013/14 estimate of 599,000 MT. We find that around 65 percent of the country's sugar consumption ultimately is the form of direct human use (namely as white, brown or specialty sugars). The balance goes toward industrial use.

FAS Quito forecasts Ecuador's sugar exports in MY 2014/15 at 13,000 MT, up 1,000 MT or 8 percent compared to our MY 2013/14 estimate of 12,000 MT. Ecuador is self-sufficient in the production of refined sugar for domestic consumption, making imports unnecessary.

Production:

PSD TABLE, ECUADOR, CANE SUGAR, CENTRIFUGAL

Sugar, Centrifugal Ecuador	2012/2013		2013/2014		2014/2015	
	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	263	263	328	328		296
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	632	632	657	577		615
Total Sugar Production	632	632	657	577		615
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	43	43	5	2		2
Total Imports	43	43	5	2		2
Total Supply	938	938	990	907		913
Raw Exports	18	18	64	12		13
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	18	18	64	12		13
Human Dom. Consumption	592	592	600	599		604
Other Disappearance	0	0	0	0		0
Total Use	592	592	600	599		604
Ending Stocks	328	328	326	296		296
Total Distribution	938	938	990	907		913
1000 MT						

Ecuador, Wholesale and Retail Sugar Prices, 2011-2013

Month/Year	Wholesale Price \$ per kg			Retail Price \$ per kg		
	2011	2012	2013	2011	2012	2013
Jan	0.84	0.86	0.83	0.93	1.05	1.07
Feb	0.85	0.85	0.82	0.94	1.05	1.06
Mar	0.85	0.85	0.82	0.96	1.05	1.06
Apr	0.88	0.85	0.83	1.03	1.04	1.06
May	0.87	0.85	0.83	1.01	1.03	1.06
Jun	0.89	0.85	0.82	0.96	1.03	1.06
Jul	0.88	0.85	0.81	1.02	1.05	1.06
Aug	0.87	0.85	0.80	1.01	1.04	1.07
Sep	0.87	0.86	0.79	1.01	1.09	1.08
Oct	0.86	0.86	0.77	1.01	1.07	1.05
Nov	0.86	0.85	0.76	0.99	1.05	1.05
Dec	0.86	0.84	0.75	1.00	1.08	1.06
Average	0.86	0.85	0.80	0.99	1.05	1.06

Source: Ecuador's National Institute of Statistics and Census and FAS Quito office research.

FAS Quito forecasts Ecuador's total sugar production in marketing year (MY) 2014/15 (May/April) reaching 615,000 metric tons (MT), up some 38,000 MT or 6.5 percent from our MY 2013/14 estimate.

We are estimating sugar production in MY 2013/14 coming in around 577,000 metric tons, or down some 55,000 MT or off nearly 9 percent compared the MY 2012/13 levels. We attribute the MY 2013/14 dip largely to a return to more typical production levels; MY 2012/13 had been a particularly good year for Ecuadorian sugar producers. At FAS Quito we see a bump in production occurring in MY 2014/15 due to the use of improved, higher yielding varieties.

We estimate that some 74,000 hectares are being planted with sugarcane in MY 2013/14. Of this amount, some 71,000 hectares or roughly 96 percent of totaled area planted is allocated exclusively to cane sugar production. MY 2013/14 cane sugar yields are estimated at about 8.1 MT/hectare. Another 3,000 hectares go into sugarcane juice production; which is used in making *panela* (solid blocks reduced through boiling and evaporation) and molasses.

Our MY 2014/15 forecast is subject to no major production disruptions induced by an El Niño event commencing in the third quarter of 2014. An El Niño is an episodic warming of the eastern tropical Pacific Ocean. With westerly trade winds in bursts of 30 miles per hour now outpacing the more normal easterly trade winds of five to 10 miles per hours, meteorologists are growing concerned about this effect on sea surface water temperatures. Reportedly some meteorologists are anticipating the possibility of an El Niño that could rival the devastation wrought by the 1997/98 event. Since March 6, 2014, an El Niño watch has been in place. Reportedly there is now a 50 percent chance of an El Niño of any variety (i.e., weak, moderate or strong) occurring in 2014; normally there is a 33 percent chance of one occurring.

The World Meteorological Organization forecasted earlier in January 2014 that outside of a small possibility of a weak and brief La Niña development in the second quarter of 2014, conditions will likely remain neutral (evidencing neither the presence of El Niño or La Niña conditions). It nonetheless indicates the possibility of a weak El Niño developing in the third quarter of 2014; driving up water temperatures during the southern hemisphere winter (May-July). The World Meteorological Organization clarifies that model forecasts tend to have reduced skill when forecasting through the March-May period.

At FAS Quito, we believe that should an El Niño occur, raw cane sugar production will likely drop in MY 2014/15. Sources comment that they are fearful of the possibility of losing their entire crop should excessive rains and flooding make the harvest difficult to undertake. Concerns are also being raised about possible effect of excessive water on the crop's sucrose content.

FAS Quito finds that about 90 percent of Ecuador's cane sugar production occurs in the provinces of Guayas and Cañar. These areas normally experience annual rainfall amounts of approximately 1000-1100 inches, with 800 inches falling between January-May. An El Niño event will significantly increase rainfall volumes, causing potentially devastating floods.

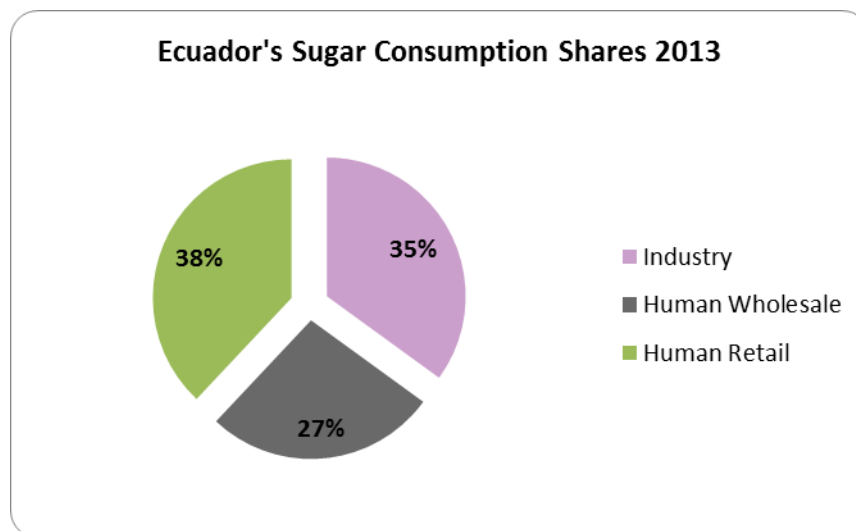
Since 2011, sugar prices are artificially stable; cane sugar mill prices range \$37-\$40 per 50-kilogram bag. Cane sugar prices paid to farmers remain frozen at the June 2011 level set at \$29.75/MT. At FAS Quito, we noticed that the wholesale price of the 50-kilogram bag in 2013 dropped from a January high of \$41.50 to \$37.50 by December; registering an average bag price of about \$40 throughout the year (or about \$0.80 per kilogram). We attribute lower wholesale prices in 2013 to excess supply brought about by increased production in MY 2012/13. At FAS Quito, we understand that some 20,000 workers are employed at the three largest cane sugar mills during the harvest season

The average retail price of a kilogram of sugar is estimated at \$1.06 in 2013. This retail price fails to reflect the 2013 commensurate drop in wholesale prices. At FAS Quito, we see intermediary markup and merchandizing costs (including advertising) continuing to prop up retail prices.

Consumption:

FAS Quito forecasts total human domestic consumption in MY 2014/15 at 604,000 MT, up some 5,000 MT or 1 percent compared to our MY 2013/14 estimate of 599,000 MT. We find that 65 percent of the country's sugar consumption ultimately is destined for direct human use (namely as white, brown or specialty sugars). The balance goes toward industrial use.

At FAS Quito we are observing a trend over time for increased human consumption of sugar. We attribute the uptick in consumption to economic expansion; despite Ecuador's growth slowing in 2013 from 5.1 percent in 2012 to 4 percent in 2013. We estimate per capita consumption of refined sugar is around 38.7 kilograms per person: Ecuador has a population of approximately 15.6 million (Central Intelligence Agency, July 2014 estimate).



Source: FAS Quito office research.

We also find that sugar producers have grown their stocks to in order hedge against price variation provoked by foreign currency rate fluctuations. Ecuador adopted the U.S. dollar as legal tender in 2000; dollarization had stabilized the economy, but in the process the government has lost its (inflation prone) discretionary monetary policy and deficit financing capabilities (i.e., the printing of money).

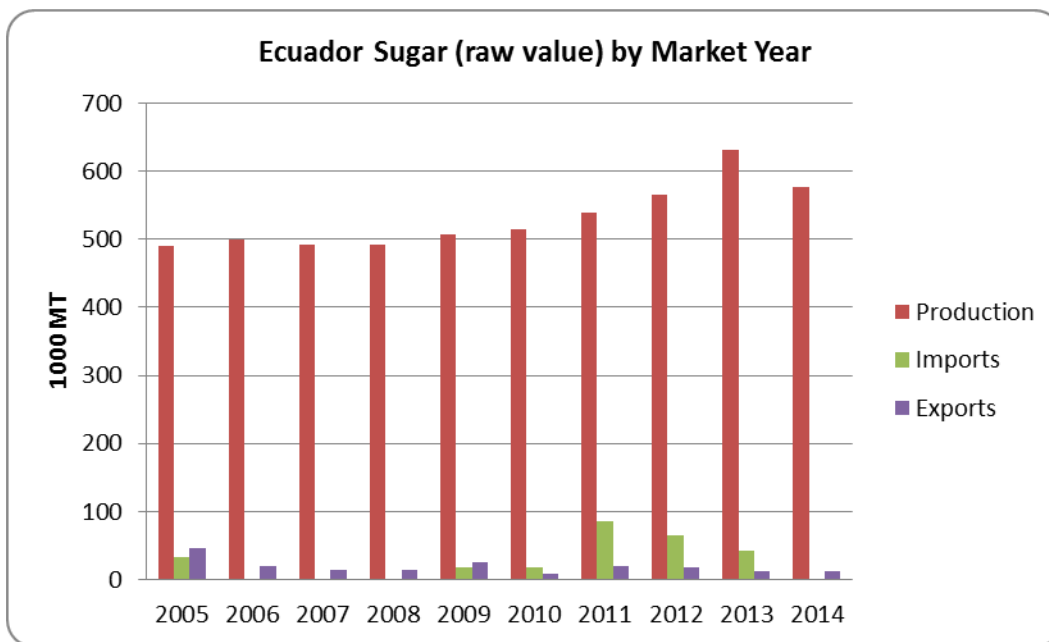
Trade:

FAS Quito forecasts Ecuador's sugar exports in MY 2014/15 at 13,000 MT, up 1,000 MT or 8 percent compared to our MY 2013/14 estimate of 12,000 MT. Ecuador is self-sufficient in the production of refined sugar for domestic consumption, making imports unnecessary. We do however forecast imports of raw sugar in MY 2014/15 at 2,000 MT, an amount unchanged from our earlier MY 2013/14 estimate.

Export/Import Trade Matrix (Metric Tons)		
Commodity: Sugar		
Time Period	CY 2012	CY 2013
Exports To:		
United States	12,216	11,312
Others	842	772
TOTAL EXPORTS	13,058	12,084
Imports From:		
Colombia	42,642	1,300
Nicaragua	0	400
Bolivia	0	265
Peru	0	120
Others	561	28
TOTAL IMPORTS	43,203	2,113
BALANCE (TE-TI)	-30,145	9,971

Note: Statistics shown do not account for unrecorded (contraband) cross border trade.

Source: Central Bank of Ecuador and FAS Quito office research.



Source: FAS Quito office research.

Ecuador's surplus sugar production is earmarked for exports mainly to the United States, and to a lesser extent to neighboring countries (i.e., Colombia and Peru). About ninety-eight percent of sugar bound for the United States is exported under the U.S. Quota Eligibility System. Depending on local and international prices, sugar is sometimes exported to Colombia and Peru.

At FAS Quito, we find that Ecuador tends to export more heavily during the harvest season. Reportedly, Ecuadorian producers are not anticipating either a production deficit or surplus; exports will largely go toward filling the U.S. Quota Eligibility System allocation volume.

Imports of raw sugar usually increase during the last quarter of each calendar year and continue through the first half of April of the following year. Imports in the past have been at the 15,000 MT level on average; imports however dropped to a low of 2,000 MT in CY 2013.

Policy:

Sugar is a staple in Ecuador and key component of the basic basket of goods that the government whose value the government utilizes to track inflation. Sugar prices remain stable for socio-political reasons. At FAS Quito, we are unaware of government-set prices for refined sugar products. There is, however, a minimum price that must be paid per metric ton to farmers. These, as well as cane sugar millers, do not receive domestic or export subsidies. Like other agricultural producers, cane sugar farmers are eligible for loans (at preferential rates) from both Ecuador's Agricultural Development Bank and the National Finance Corporation.

Ecuador, as a member of the Andean Community of Nations (CAN), allows duty-free sugar imports from fellow CAN members (i.e., Bolivia, Colombia, and Peru). Non CAN-origin sugar imports are assessed a 15 percent base tariff in addition to a variable "price band" levy. The variable levy for white sugar (Harmonized System Code – HS 1701.9900) is currently assessed at 25 percent; current final tariffs rates for sugar, refined and raw, are set at 40 and 42 percent respectively. Sugar imports have a World Trade Organization (WTO) approved bound tariff rate of 45 percent, which includes price band-related duties.

At FAS Quito, we understand that Ecuador's cane sugar mills have an agreement with the government to supply the U.S. market to safeguard the sugar allocation quota. Both the government and the millers value the United States as an export destination for surplus production. Cane sugar mills only produce raw sugar in sufficient volume to fill the U.S. sugar tariff-rate-quota. These sugar exports occur yearly between the months of June and September.

Although sugar was included in negotiations with the Southern Common Market (MERCOSUR), Ecuador has excluded sugar (both raw and white) from the 15-year liberalization process (i.e., commencing in April 2005). A special clause authorizes Ecuador to commence the 15-year liberalization process only when it agrees to do so with each MERCOSUR member. Even once tariffs are fully liberalized, Ecuador is authorized to continue to charge the price band system's variable levy. Ecuador and MERCOSUR have not commenced sugar negotiations despite the former enjoying associate member status in 2004.

Ecuador and the European Union (EU) are pursuing trade liberalization negotiations. Sources inform that Ecuador is asking for a 25,000 MT sugar export quota.