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Date: 4/12/2018

GAIN Report Number: ES1801

El Salvador

Sugar Annual

2018

Approved By:

Sean Cox, Regional Agricultural Attaché

Prepared By:

Miguel Herrera, Agricultural Specialist

Report Highlights:

El Salvador's sugarcane planted area in marketing year (MY) 2018/19 remains the same as in MY 2017/18 at approximately 82,000 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In MY 2017, top sugar export destinations were China, Taiwan, Indonesia, Canada, Venezuela and Romania. Favorable (but volatile) international prices continue to provide financial relief to the sugar sector. The draft law for production of alternative fuels, including ethanol, is still "on hold" and there is no set date for its entry into force. Although El Salvador plans to join the Customs Union with Guatemala and Honduras, sugar will likely not be included in the products that will benefit with duty-free trade.

Executive Summary:

Higher yielding varieties, irrigation systems, continued investment in energy production, new milling technology, rum production and growing access to the U.S. market will continue to benefit El Salvador's sugar industry over the next three to five years. However, uncertain international prices and abnormal weather conditions could have a negative effect on the sector.

Sugarcane production for the MY2018/19 harvest is estimated at 6.6 million metric tons (MMT). Based on new data provided by CONSAA, production for MY 2017/18 has been revised slightly downward to 6.53 MMT.

A national sugar law passed on 2001 for commercialization, production, and distribution of sugar requires changes in all aspects of sugar production, and has reshaped the industry. In addition, assisted by (mostly) attractive prices 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 compliance with the sugar law, continued improvement 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, increases in the minimum wage and climate change continue to be major concerns for the sector.

El Salvador exports raw and refined sugar. The Government of El Salvador (GOES) continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.40 per pound, plus a 13 percent value-added tax.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

Sugar production in MY 2018/19 is estimated at 765,000 metric tons (MT). Investments in irrigation, refining equipment and more productive varieties are the main reason for this expected increase in production. Estimated sugar production for MY 2017/18 has been raised to 760,000 MT due to favorable weather conditions that have led to a higher sugar recovery rate. However, erratic weather conditions could continue to affect future sugar production. New data provided by CONSAA show exports reaching 473,140 MT for MY 2017 and are estimated at 468,100 MT for MY 2018.

Recent production numbers compiled by FAS/El Salvador show that the MY2018/19 sugarcane harvest is expected to reach 6.6 MMT. This production forecast is higher than in MY 2017/18 because of decreased sugarcane burning during harvest, new pest-resistant sugarcane varieties, new irrigation systems, and improved milling.

Planted area is expected to remain at 82,000 hectares during MY 2018/19 mainly due to concerns with security in production areas. Planted area could increase in the near future if security due to gang

problems improves in rural areas and the ethanol production law is implemented. There is ample idle land in the country that can be devoted to increased sugarcane production.

Grower prices continue to be set according to the sugar content of the cane. According to the sugar law, producers receive 54.5 percent of total sugar sales, with the rest 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.

Consumption:

Due to a sluggish Salvadoran economy, growth of domestic sugar consumption is minimal reaching 292,000 MT in MY 2017. Post estimates that consumption will continue to have a slow growth in MY 2018 increasing to 293,000 MT due to poor economic growth forecasts.

Trade:

Exports for MY 2018/19 are expected to reach 473,000 MT; the export forecast for MY 2017/18 has been increased to 468,000 MT due to higher production.

In December 2017, El Salvador signed a Free Trade Agreement with South Korea that is very beneficial to the sugar industry granting duty free access to that market.

The GOES continues to impose 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. El Salvador is currently negotiating access to the Customs Union with Guatemala and Honduras; however sugar is not one of the products that will benefit from duty-free trade.

China, Taiwan, Indonesia, and Canada are major destinations for Salvadoran sugar. Other export destinations in MY 2017 for Salvadoran sugar were Venezuela, Myanmar, Peru and Romania. Export destinations for MY 2018 are expected to be similar to 2017.

<p>Export Trade Matrix El Salvador Centrifugal Sugar</p>

Time Period	MY	Units:	MT
Exports for:	2017		2018
U.S.	46,250	U.S.	50,000
Others		Others	
China	112,000	China	110,500
Taiwan	94,114	Taiwan	94,000
Indonesia	71,959	Indonesia	70,000
Canada	45,050	Canada	44,000
Venezuela	31,400	Venezuela	30,000
Romania	27,175	Romania	25,000
Peru	11,725	Peru	10,500
Myanmar	5,981	Myanmar	5,000
Total for Others	399,404		389,000
Others not Listed	27,486		29,100
Grand Total	473,140		468,100

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in MY 2018/19 are estimated at 46,000 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. Both 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 the government, sugar producers, and sugar mills.

A law for the production of alternative fuels, including ethanol, which was drafted in 2009, is still on hold. Under the previous GOES administration there was an agreement with the sugar industry on a 10 percent blend for ethanol in gasoline. But the current administration has not enacted this law; arguing that they need to make sure that it is beneficial and has no negative impact on the environment and on consumers.

The following are areas where the sugar industry is 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.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Market Begin Year El Salvador	2016/2017		2017/2018		2018/2019	
	Nov 2016		Nov 2017		Nov 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	82	82	82	82	0	82
Area Harvested	81	81	81	81	0	81
Production	6541	6626	6540	6535	0	6600
Total Supply	6541	6626	6540	6535	0	6600
Utilization for Sugar	6541	6626	6540	6535	0	6600
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	6541	6626	6540	6535	0	6600
(1000 HA) ,(1000 MT)						
Sugar, Centrifugal Market Begin Year El Salvador	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	50	50	38	50	0	49
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	730	765	730	760	0	765
Total Sugar Production	730	765	730	760	0	765
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	780	815	768	810	0	814
Raw Exports	450	473	450	468	0	473
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	450	473	450	468	0	473
Human Dom. Consumption	292	292	293	293	0	295
Other Disappearance	0	0	0	0	0	0
Total Use	292	292	293	293	0	295
Ending Stocks	38	50	25	49	0	46
Total Distribution	780	815	768	810	0	814
(1000 MT)						