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Report Highlights:

Sugar production in marketing year (MY) 21 is estimated at 815,000 metric tons (MT), while production for MY20 has increased to 809,000 MT. Improving international prices have eased the financial pressure exerted by the Covid-19 pandemic on the sugar sector.

Executive Summary:

Improved seeds, greater 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. Sugarcane production for the MY21 harvest is estimated at 7.1 million metric tons (MMT). Based on new data provided by the Salvadoran Sugar Council (CONSAA), production for MY20 has been revised upward to 7.1 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 (hurricanes Eta and Iota), high transportation costs, and lack of government assistance. In addition, the Covid-19 pandemic negatively impacted the economy, reducing both internal and export demand.

Ultimately the success of the industry will depend on continued improvements in yields, increased diversification into energy co-generation projects, and final approval of a draft law supporting investment in the production of alternative fuels, including ethanol. The law, drafted in August 2009, continues to be on hold and does not have a set date to enter into force. However, under the administration that took office in June, 2019, the law could move forward; especially since the ruling political party will have a supermajority in the legislature taking office on May 1, 2021.

The sector continues to be challenged by increased crime rates, including extortion, and by uncontrolled sugarcane burning, high input costs, uncertainty about future international prices, announced increases to the minimum wage, abnormal weather conditions, and now the economic impact caused by COVID-19.

Production:

Sugar production in MY21 is estimated at 815,000 MT. Production continues to improve because of continued investments in irrigation, refining equipment, and improved seeds. Estimated sugar production for MY20 has been increased to 809,000 MT due to a higher sugar recovery rate. However, sugar producers believe that erratic weather conditions could affect future sugar production. New data provided by CONSAA shows exports reaching 508,217 MT for MY20 and 540,100 MT for MY21. The increase in MY21 is mainly due to unsold stock amidst the global economic impact caused by Covid-19, and will be exported as economic conditions improve.

Recent production numbers compiled by FAS El Salvador show that the MY21 sugarcane harvest is expected to reach 7.1 MMT. This production forecast is slightly higher than in MY20 because of a lower than anticipated impact of COVID-19 on the overall Salvadoran economy, including the sugar sector.

Planted area is expected to remain at 81,000 hectares during MY21 mainly due to stabilization of the number of producers joining the sector. Planted area could increase rapidly if the security situation improves in rural areas, if sugar prices increase, and/or if the ethanol production law is implemented. There are approximately 300,000 hectares of idle land in the country that could be devoted to sugarcane production. However, the

Government of El Salvador (GOES) is more focused on improving basic grain, vegetable, fruit, dairy and meat production through a national agricultural recovery program that was recently announced 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 of total sugar sales that producers receive 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 extortion by gangs.

Consumption:

Domestic sugar consumption is forecast to remain at 290,000 MT in MY20. FAS El Salvador estimates that it will remain at that level due to continued shrinking sugar demand, mainly in the foodservice and confectionary sectors.

Trade:

Exports for MY21 are expected to reach 540,100 MT; the export forecast for MY20 decreased to 508,217 MT due to lower sugarcane production as a result of unfavorable weather conditions in 2020, 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 the Dominican Republic-Central America FTA (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.

The United States, China, South Korea, and Taiwan are major destinations for Salvadoran sugar. In MY20, other important export destinations for Salvadoran sugar included Peru, Mexico and Canada.

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 in 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 MT under the WTO quota for the period between October 1, 2020 and September 30, 2021.

<p style="text-align: center;">Export Trade Matrix</p> <p style="text-align: center;">El Salvador</p> <p style="text-align: center;">Centrifugal Sugar</p> <p style="text-align: center;">(Metric Tons)</p>			
	MY		MY
Exports for:	2020		2021
U.S.	120,034	U.S.	127,600
China	135,000	China	143,500
South Korea	114,055	South Korea	121,000
Taiwan	60,175	Taiwan	63,700
Peru	13,725	Peru	14,500
Mexico	13,075	Mexico	13,800
Canada	12,303	Canada	12,750
Haiti	11,259	Haiti	11,700

Italy	10,977	Italy	11,400
Spain	7,570	Spain	7,950
Others	10,044		12,200
Non-U.S. Total	378,139		400,300
Grand Total	508,217		540,100

Source: CONSAA and USDA/FAS.

Stocks:

Ending stocks in MY21 are estimated at 28,000 MT. In MY20, ending stocks grew to 34,000 MT mainly due to the lack of external demand for Salvadoran sugar caused by the global economic impact of Covid-19.

Contraband sugar from neighboring countries is negligible and causes no major 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 the government, sugar producers, and sugar mills.

A draft law for the production of alternative fuels, including ethanol, which was drafted in August 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 will have a super-majority following elections in February 2021, which could create an opportunity for this and other pending laws to pass.

Production, Supply, and Demand Data Statistics:

Sugar Cane for Centrifugal	2019/2020		2020/2021		2021/2022	
	Nov 2019		Nov 2020		Nov 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Nov 2019		Nov 2020		Nov 2021	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	81	81	81	81	0	81
Area Harvested	80	80	80	80	0	80
Production	7058	7067	6845	7112	0	7150
Total Supply	7058	7067	6845	7112	0	7150
Utilization for Sugar	7058	7067	6845	7112	0	7150
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	7058	7067	6845	7112	0	7150
(1000 HA) (1000 MT)						
Sugar, Centrifugal	2019/2020		2020/2021		2021/2022	
	Oct 2019		Oct 2020		Oct 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year	Oct 2019		Oct 2020		Oct 2021	
El Salvador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	26	26	32	55	0	34
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	825	827	800	809	0	815
Total Sugar Production	825	827	800	809	0	815

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	851	853	832	864	0	849
Raw Exports	534	437	530	465	0	456
Refined Exp. (Raw Val)	0	71	0	75	0	74
Total Exports	534	508	530	540	0	530
Human Dom. Consumption	285	290	285	290	0	291
Other Disappearance	0	0	0	0	0	0
Total Use	285	290	285	290		291
Ending Stocks	32	55	17	34	0	28
Total Distribution	851	853	832	864	0	849
(1000 MT)						

Attachments:

No Attachments