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# Colombia

# Sugar Annual

# Colombian Sugar Production and Exports Expected to Increase

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**Report Highlights:**
Colombian sugar production is expected to increase by 30,000 tons to 2.31 million tons in MY 2011/2012, and is forecast to remain unchanged at 2.31 million tons in MY 2012/2013. Sugar exports are projected at 880,000 tons in MY 2012/2013, which is 2.3 percent above last year's. Ethanol production capacity will expand by 300,000 liters, a 20 percent increase. Local consumption is forecast at 1.65 million tons, a one percent increase.

**Executive Summary:**

Colombian sugar production is forecast to remain at 2.31 million tons in MY 2012/2013. The area available for sugarcane in the Cauca river valley is virtually all planted and the area for expansion is marginal. Increases in productivity and area will be devoted to ethanol production as new ethanol facilities enters into production. Sugar exports are expected to increase by 30,000 tons, to 860,000 tons in MY 2011/2012; this increase in sugar production will also increase the sugar availability for exports. Colombian sugar exports are projected to reach 880,000 tons in MY 2012/2013. This is a relatively small increase in exports due primarily to new ethanol expansion projects entering into production, thus resulting in more sugar being taken away from exports for ethanol production. In October, 2011, the U.S. congress ratified the CTPA which we believe will foster bilateral trade for sugar and sugar containing products. Finally, the implementation of CTPA with the United States will be effective May 15, 2012. Thus, Colombia gets a duty free TRQ of 50,000 tons of raw sugar equivalent which will increase annually by 750 tons.

**Commodities:**

Sugar, Centrifugal

**Production:**

In MY 2011/2012, sugar production is expected to reach 2.31 million tons, which is 30,000 tons higher than the year before. Although "la Niña" weather phenomenon continued in 2011, lower precipitations levels in the sugar cane areas allowed for increased sugarcane harvesting and consequently higher sugar production. In the third quarter of 2011, the precipitation level decreased by 60% compared to the same period in 2010 level. As a result, in 2011 calendar year, sugarcane crushing increased 12 percent compared to 2010. Sugar production is forecast to remain at 2.31 million tons in MY 2012/2013. One factor that limits the increase in sugar production is the expansion in ethanol producing facilities. As ethanol production capacity expands a larger sugarcane amount is devoted for ethanol production. In 2013, ethanol production is expected to increase by 300,000 liters per day when a new ethanol facility enters into production. The facilities for ethanol and sugar production are located one near to the other which makes it more efficient for the input of sugarcane to be devoted for processing either product. Changes in total production will depend on the weather which affects conversion factors when processing sugarcane, and the program of land management by specific areas.

Colombia harvests sugar cane year-round which makes sugar and ethanol production a continuous process. Sugar cane areas, sugar mills and ethanol facilities are located in the valley of the Cauca River. This situation sets a limit to the area for sugarcane to be economically efficient, and in 2005 when ethanol facilities projects became a reality the area available was almost covered and since then, increases in the area planted have been marginal.

In 2011, the sugarcane area planted in the valley of Cauca was calculated at 215,000 hectares, 8,000 hectares higher than a year before stimulated by strong sugar prices. It is calculated that 18 percent of this area is devoted to ethanol production. Colombia is reported as the most efficient sugarcane producer in Latin America with 120 tons of sugarcane per hectare followed by Guatemala, 100 tons, Brazil 80 tons, and Mexico 70 tons of sugarcane per hectare respectively.

The Colombian sugar industry is actually a cluster around sugarcane; sugar, ethanol, food industry and also power generation. In 2005 ethanol production entered into the cluster thus impacting sugar production and allocation into the local and external market. Ethanol production substitutes partially sugar exports, and began to compete with sugar production in late 2005. In 2011, ethanol production reached 337 million liters and its plant capacity reached 1.3 million liter per day.

The sugar industry, through its Researching Center –CENICAÑA-, has been focusing in developing programs of land management by specific areas to increase productivity given the land expansion constrain. This program identifies different soil characteristics for small areas and then develops a management program for that specific area. The industry expects that the implementation of this program will take sugarcane production from 120 ton per hectare to 160 tons per hectare in 2020 year.

Colombia is the second largest **non-centrifugal sugar (panela)** producer in the world after India. In 2011, Colombian sugarcane area harvested for panela was 196,000 hectares out of 239,000 hectares planted. Production reached 1.2 million tons of panela 100,000 tons lower than the year before due to the impact of extreme rainfall. Post does not expect production of panela to change in 2012. Panela production is distributed among 70,000 farms, and employs approximately 120,000 subsistence farmers located throughout the country.

**Consumption:**In MY 2012/2013, Colombian sugar consumption is forecasted at 1.64 million tons, one percent above from a year before. Consumption has been led by increasing demand from the confectionary sector to meet increased exports of processed food products. Sugar mills will continue to prioritize the Colombian refined sugar market because of higher prices and higher returns compared to raw sugar exports.

**Trade:**

Colombia has 13 sugar mills all located in the geographical Valle of Cauca River, and 5 of them produce ethanol as well. Colombia is a net sugar exporter and Colombian sugar exports are sensitive to international prices and to increases in ethanol production as part of the sugar cluster. Due to strong international prices exports are expected to increase from 830,000 tons in MY 2010/2011 to 860,000 tons in MY 2011/2012. We also anticipate sugar exports to reach 890,000 tons in MY 2012/2013 due to the expansion in ethanol production which will take more sugarcane otherwise devoted to sugar production for exports. Colombian sugar producers continue their efforts in order to increase markets for exports of higher priced refined sugar. In MY 2010/2011, 70 percent of total Colombian sugar exports were high-priced sugar.

Chile continues as the first destination for Colombian sugar exports, which in MY 2010/2011reached 262,000 tons, 44 percent higher than the year before, followed by Peru and Haiti. In MY 2010/2011, Chile represented 32 percent of total Colombian sugar exports and the United States 5 percent. The sugar exported to the United States surpassed by 56% the sugar quota assigned for fiscal year 2010.

Colombia's sugar imports decreased to 160,000 tons in MY 2010/2011, and it is expected to increase to 170,000 tons in MY 2011/2012, due to increase in domestic consumption and exports. Brazil, Bolivia, Guatemala and Peru supplied 98 percent of the total Colombian imports. Imports from Bolivia and Ecuador enter duty free under the Andean Community agreement, and Brazil is granted a duty preference compared to other suppliers under the Regional Preferences of the Latin America Integration Association (LAIA).

**Stocks:**Colombia produces sugar year-round and is able to supply the market on a regular basis and without disruptions, so there are not programs or incentives for sugar mills to keep inventories according to our sources. Private sector sugar working inventories which includes product in transit to exporting markets, are projected to reach 375,000 tons in MY 2011/2012, 15,000 tons lower than the year before. In MY 2012/2013, it is forecast that inventories would decline by 40,000 tons, to 335,000 tons.

**Policy:**

**Tariff Modification**

In early November 2010, the High Council of Foreign Trade advised the Colombian Government to reduce import tariffs aimed to reduce production costs, unemployment rate, the tariff dispersion, and to simplify the custom administration and eliminate the bias against exports. As a result, Colombia reduced import duties on November 5, 2010 for over 4,000 tariff lines (Decree 4114 and 4115). The average nominal import duty was reduced to 8.25%. In addition, due to the prevalence of high world prices for agricultural products, the Colombia's applied duties have not exceeded the WTO negotiated bound tariffs. The main products that received tax reduction were consumer goods, capital goods, and raw materials. The import duty on sugar and sugar products were reduced by 5 percent from its previous duty. The import duty for sugar is now 15 percent. The sugar and sugar products will remain into the price band system (see below).

**Sugar Price Stabilization Fund (PSF)**

Colombia produces sugar far in excess of its internal demand that convert it into a net exporter. The PSF mechanism was established in 2001 to avoid an oversupply of internal market that would have lowered prices at a point that would have made some sugar mills go out of business. This PSF set a market weighted average price (MWAP), which includes prices from all markets, lower and high price markets. Then, those mills that sell sugar into markets at prices above the MWAP will contribute to the PSF and, conversely, for those mills that sell into markets at prices below the MWAP will receive compensation from the PSF. In the end, exporter's income reflects neither selling at a price that is as high as the higher-priced markets nor as lower as the lower-priced markets. Historically, the markets of higher prices have been the U.S. quota and the local market and the external markets the lower-priced.

**Price Band**

Under the Andean Community regulations, sugar imports from other Andean Community countries are allowed duty-free entry into Colombian market. Imports from outside the Andean Community are subject to a variable duty under the Andean price band system. The basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 15 percent.

The Andean Community revises the band of prices, ceiling and floor, annually every April. The duty adjustment is made based on whether a reference price is above or below the ceiling and floor price respectively. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling prices band, the import duty is the basic tariff rate, 20 percent in the case of sugar, applied to the invoice value. When the reference price falls below the floor price, a variable surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied based upon the difference between the reference and the ceiling price.

The Andean Community set the price band to be applied for the period April 2012 to March 2013 as follows, which is an increase for the third consecutive year, as noted below:

| *Andean Community Price Band April 2010 to March 2011* | | | | |
|---|---|---|---|---|
| | ***Floor Price*** *$ per ton April / March* | | ***Ceiling Price*** *$ per ton April / March* | |
| | **2011/12** | **2012/13** | **2011/12** | **2012/13** |
| **Raw Sugar** | 364 | 428 | 471 | 588 |
| **Refined Sugar** | 470 | 535 | 585 | 699 |
| **Source: Andean Community** | | | | |

For the first two weeks of April 2012, reference prices for raw and refined sugar were set at $565/ton and $670/ton respectively. Thus, Colombia's current total effective duty is 15 percent, which is the basic duty on imports of raw and refined sugar given that the reference prices for both products are within the floor and the ceiling price.

**Colombian Trade promotion Act (CTPA)**

In October, 2011, The US Congress ratified the FTA and the Colombian government is adjusting its legislations and custom procedures for the implementation. The price band duty system will be eliminated for imports from the United States upon implementation. The agreement set a TRQ of 10,500 tons for glucose, which includes high-fructose corn syrup that increases 5 percent annually for 10 years. At the same time, the basic import duty above the TRQ will be reduced from 20 percent by 2 percent annually until it is eliminated at the end of the 10-year phase-out period.

**Andean Community and Mercosur**

Andean Community members (Peru, Ecuador and Bolivia) have free access to Colombia's sugar market, as does Colombia to each of their markets. Under the Colombia/Mercosur free trade agreement, which entered into effect in February 2005, sugar was largely excluded. Colombia maintains the price band system and there was no agreement reached on when tariff reduction would begin. However, Colombia continues to grant duty preferences under previous bilateral agreements such that Mercosur members pay only a percentage of the basic duty rate. The actual duties paid are as follows: Argentina and Brazil 13.2 percent for raw and refined sugar; Paraguay 9.9 percent on raw and refined sugar; and Uruguay 12 percent on raw and refined sugar.

**Prices**

The price for local sugar in Colombia is mainly based on international sugar prices adjusted with transportation costs and import duties to the local market. The duty for sugar is a variable duty under the Andean price band mechanism (see price band above). The New York Commodity Exchange price is the basis for raw sugar and the London Sugar Exchange price is the basis for refined or white sugar. In 2011, the average price for raw sugar at NYCE was $ 0.27 per pound and the average price for refined sugar at $0.32 per pound; both were the highest average price ever.

## Production, Supply and Demand Data Statistics:

| Sugar, Centrifugal Colombia | 2010/2011 | | 2011/2012 | | 2012/2013 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Sep 2010 | | Market Year Begin: May 2011 | | Market Year Begin: Sep 2012 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Beginning Stocks** | 405 | 405 | 350 | 390 | | 375 |
| **Beet Sugar Production** | 0 | 0 | 0 | 0 | | 0 |
| **Cane Sugar Production** | 2,200 | 2,280 | 2,250 | 2,310 | | 2,310 |
| **Total Sugar Production** | 2,200 | 2,280 | 2,250 | 2,310 | | 2,310 |
| **Raw Imports** | 0 | 0 | 0 | 0 | | 0 |
| **Refined Imp.(Raw Val)** | 160 | 160 | 170 | 170 | | 180 |
| **Total Imports** | 160 | 160 | 170 | 170 | | 180 |
| **Total Supply** | 2,765 | 2,845 | 2,770 | 2,870 | | 2,865 |
| **Raw Exports** | 250 | 250 | 250 | 250 | | 250 |
| **Refined Exp.(Raw Val)** | 540 | 580 | 550 | 610 | | 630 |
| **Total Exports** | 790 | 830 | 800 | 860 | | 880 |
| **Human Dom. Consumption** | 1,620 | 1,620 | 1,620 | 1,630 | | 1,645 |
| **Other Disappearance** | 5 | 5 | 5 | 5 | | 5 |
| **Total Use** | 1,625 | 1,625 | 1,625 | 1,635 | | 1,650 |
| **Ending Stocks** | 350 | 390 | 345 | 375 | | 335 |
| **Total Distribution** | 2,765 | 2,845 | 2,770 | 2,870 | | 2,865 |
| | | | | | | |
| 1000 MT | | | | | | |