

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Dominican Republic

Sugar Annual

2012

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Report Highlights:

Based on current official data for MY 2012, production is estimated at 548,000 MTRV, while consumption remains stable at 337,000 MTRV. Following the devastating earthquake in Haiti in 2010, the Dominican sugar market continues to experience additional pressure from the neighboring country, resulting in 49,000 MT of imports from South America in MY 2012 to meet domestic demand. To date, the DR has filled approximately 60% of the annual U.S. TRQ allocation (including the additional allocation announced in April 2012) and no sugar will be available for export to the EU under the Economic Partnership Agreement (EPA) during MY 2012.

Executive Summary:

For MY 2012, production is estimated at 548,000 MTRV, slightly higher than previously estimated as a result of a new mill in operation and improved yields. For the out year MY 2013, total production is anticipated to be somewhat lower, around 540,000 MTRV. The two largest private producers, Central Romana and the Consorcio Azucarero Central, are expected to produce over 85% of production, while the other two mills (Cristobal Colon and Porvenir) produce the remaining 15%.

Production:

Production for MY 2011 was slightly higher than initially reported due to adjustments done by INAZUCAR (the GODR's Sugar Institute) and the reopening of an old government mill, Ingenio Porvenir. For MY 2012, the harvest has also been estimated to be a bit higher than previously expected, in accordance with estimates at all three of the private mills, and an additional output of 15,000 MT from the former government mill cited above.

The two largest private producers, Central Romana and the Vicini Group continue to dominate the Dominican sugar market and are expected to produce almost 450,000 MTRV (metric tons raw value) in MY 2012, somewhat higher compared to the year before. The third private producer, Consorcio Azucarero Central (Central Barahona) is expected to add an additional 65,000-70,000 MTRV, coupled with another 10,000-15,000 MTRV from Ingenio Porvenir. Currently, only one sugar refinery, Central Romana, operates at full capacity in the country and is expected to generate a total output of 173,000 MT for MY 2012.

According to INAZUCAR, the production pattern for refined sugar in MY 2012 should remain at the same levels as in MY 2011, meeting most of the country's refined sugar needs. However, due to higher demand for raw sugar in foreign markets, particularly in Haiti following the earthquake in January 2010, along with the increase in the U.S. TRQ allocation for FY 2012, additional sugar has been required to meet local demand. Consequently, the DR has already had to import sugar from South America and will not be exporting any sugar to the EU market this year.

In MY 2012, Central Romana and the Consorcio Azucarero Central began their harvest in December, while the Vicini Group began in January. Typically, all three mills conclude their individual harvests before the rainy season interrupts, usually in late June/early July. Finally, Post notes that the former government mill, Ingenio Porvenir, began operations half-way through the harvest period, with a somewhat uncertain future for MY 2013 production.

Generally, cane yields vary between 30-80 MT per hectare, depending upon location, rainfall patterns, available transport resources, cane varieties, age and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. For example, industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana (and occasionally other firms) apply small amounts aerially. However, given that less than half of the land in sugar cane production is irrigated, the remaining area is subject to stress during dry periods.

Similarly, the sugar industry requires about 20,000 full-time workers, coupled with an additional 10,000 temporary cane cutters during harvest. Mechanized harvest has slowly increased, accounting for around 60-65 percent of current production. In the future, as operating costs increase and fewer cutters remain available, the degree of mechanization will most likely grow.

In MY 2011, sugar industry recovery rates averaged 10 percent, while Central Romana was somewhat higher at about 12 percent. These figures appear to be consistent with sugar recovery rates throughout the last decade, averaging around 10.6 percent. Current estimates indicate that the rates for MY 2012 might be slightly higher.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates, however, have varied widely, between 8 and 12.5 percent. As well, sugar content also fluctuates between 7 and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Moreover, local

cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic and some of the sugar cane crosses in the DR include: CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Cost of production varies substantially from company to company, ranging from US\$0.18 to US\$0.27 per pound.

Consumption

Currently, domestic sugar consumption is fairly stable at around 337,000 MTRV, with 170,000 MTRV of refined and the remainder in raw form. In general, the public consumes sugar in raw form, while the soft drinks, juices and confectionary industries use primarily refined sugar. At present time, the country's total refined sugar demand is being met, unlike that of raw sugar.

Based on a population of 9.5 million inhabitants, per capita consumption is around 78 lbs of sugar/person/year. Post should point out that, although it is not formally registered, some sugar is informally traded with Haiti and is not reflected under consumption or exports, but rather remains hidden under stocks on the PS&D tables.

Finally, Post also notes that plantation white or semi-refined sugar has not been manufactured in the last five years.

Trade

At the present time, Post estimates sugar imports of at least 20,000 MT before the end of the current marketing year. In fact, GODR officials have already confirmed raw sugar imports of 48,700 MT from Brazil and Colombia in MY 2012.

On the import side, current duties for raw sugar are 15 percent and 20 percent for refined, plus a 16 percent value-added tax (VAT), referred to by its Spanish acronym, ITBIS. In accordance with Decree 576-96, imports of sugar and sugar-based products still require permits from INAZUCAR. In that vein, as part of its WTO commitments under the Technical Rectification following the Uruguay Round, the GOVDR established a TRQ for 23,000 MT of sugar (with the corresponding in-quota rates cited above), gradually increasing to 32,000 MT since 2005, with an out-of-quota tariff of 85%. Since that time, the DR has continued to issue import permits for up to 48,700 MT, administered on a first come, first served basis.

Under the CAFTA-DR specifically, the DR will phase out its sugar tariffs over a 15-year period, beginning with the 85% out-of-quota tariff. Similarly, tariffs on High Fructose Corn Syrup (HFCS) will also be phased out during the liberalization period.

Other products

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. For example, both molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) represent important sources of revenue for the industry. According to official data for MY 2011, the sugar industry produced about 31.4 million gallons of molasses, of which 18 million were used for local consumption and 13 million (valued at \$9 million) were exported. Similarly, Central Romana produced over 24,600 MT tons of furfural, all of which were exported, for an additional US\$15 million in revenues. Current estimates indicate that production levels should remain at similar levels.

As well, Post also notes that there are two industries and sister companies operating as off-shore plants under the country's special Free Trade Zone regime, using sugar as a raw material. These companies produce sweetened coconut milk and piña colada mix for the export market, along with juices and smaller quantities of canned red pinto beans and garbanzos (chick peas), which also contain some sugar. According to the National Council for Free Zone Exports (CNZFE), these companies are authorized to import and re-export as much as 6,000 MT of sugar per year. Post's import estimates in this report do not include the free trade zone sugar.

Stocks

Generally, producers hold the sugar stocks, although middlemen and wholesalers also maintain them. Typically, stocks range from 20,000 to 56,000 MT, but occasionally fluctuate. As production and consumption continue unchanged for MY 2013, stocks are estimated to remain in the same range.

Historically, the Dominican Republic receives the largest single-country allocation of the annual U.S. tariff rate quota (TRQ) for sugar. For FY 2012, the DR received 218,908 MTRV, including an additional 30,000 MT announced in April 2012. As of April 30, 2012, certificates for 60% of the quota (128,000 MT) had been requested by the DR for export to the U.S. market under the FY 2012 TRQ, noting that no additional sugar will be available for the EU market. According to GODR officials, the DR is expected to fill the original U.S. quota plus the additional quantity required. In line with preliminary data reported by INAZUCAR for MY 2012, sugar exports to the U.S. market are anticipated to generate over US\$80 million in revenue. In fact, most of the DR's sugar exports are destined for the U.S. market, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti.

More specifically, the U.S. sugar quota is divided among the producers according to an established formula based on individual production levels of the last three years and are announced officially by Presidential decree (Previously, INAZUCAR published the assigned percentages to the industry). For the current FY 2012, the allocations are as follows:

U.S. TRQ Allocation, FY 2012

<i>Mill</i>	<i>Allocation of U.S. TRQ</i>
Central Romana	62.8%
Grupo Vicini	27.2%
Consorcio Azucarero Central	10.0%

Post also notes that in the context of the CAFTA-DR, an additional 10,000 MT could be added to the current quota, with annual growth of 2%, if the DR can meet the net exporter requirement. No exports have been made in the last three years.

Also, as a member of the EU-CARIFORUM Economic Partnership Agreement (EPA), Dominican sugar will enter the EU market at €335.20 per metric ton as of October 2009, somewhat lower than the U.S. rate. In this regard, INAZUCAR authorities have indicated that exports to the EU will only occur after the U.S. quota commitments are filled.

Policy

Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

In general terms, alternative use of sugar cane for other purposes appears to be moving forward. For example, in 2011, one of these initiatives was a joint venture arrangement between two processors and the GODR, whereby the government leased 25,000 HA of sugar cane land for a 30-year period, from the non-operating mills, Consuelo, Quisqueya and Monte Llano. In principle, the leased land would be used for sugar, ethanol and forest initiatives, initially focusing on recuperating the sugarcane fields for sugar production and later on, engaging in ethanol and biomass production.

In recent years, government plans for biofuels have received a great deal of press and ethanol appears to be the first option, although legislation continues to move slowly. For many years, the central government has been promoting the use or development of an ethanol-gasoline blend, previously authorized by an old law (2071) and reactivated by Decree No. 556-05 in 2005. Subsequently, the regulations outlined in the 2005 legislation were enacted as Law 57-07.

Currently, the effort to establish a mandate that would include a requirement of 10 percent ethanol for an ethanol-gasoline blend and one of 20 percent biodiesel for a diesel blend has encountered several obstacles. Specifically, the start date has been postponed several times and, as the GODR still does not have a calculation for the cost of the ethanol, both local and foreign investors remain hesitant to support this plan under such uncertainties. Post will continue to monitor this situation, particularly once the new administration takes over in August of this year; to date, no specific reference to this initiative has been made by the President-elect.

In the meantime, there also appears to be plans for another separate project that seeks to dehydrate ethanol from either imported hydrated ethanol sources and/or from that which is locally produced. As it stands now, the necessary legislation and investors are simply not available, and ultimately, foreign market prices will determine the viability of this project. If found to be feasible, Post estimates that local production is at least 2-3 years down the road.

Finally, on a separate albeit related matter, Post notes the announcement in April 2010 that Spanish investor Globasol (Spanish Group Globalia) signed an agreement with another Spanish firm, Ingenieria TSK-Ingemas, to build the first biodiesel plant in the country (in the province of Azua). Unfortunately, no further information regarding this initiative is available at this time, but Post will monitor the situation and report back accordingly.

Marketing

The Ministry of Industry and Commerce and INAZUCAR establish the base price for both raw and refined sugar. As a result, prices generally remain stable and producers sell directly to

wholesalers and large companies that use sugar in their product formulations. As of April 19, 2011, the official sugar prices were as follows:

Official Prices for Sugar (April 2012)

Type of sugar	Retailer (RD\$ per lb.)	Retailer (US\$/lb.)
Raw	16.00*	0.41
Refined	18.00*	0.47
Exchange rate	38.50/US\$	38.50/US\$

Source: * INAZUCAR, Resolution No. 04-2011

In recent months, Dominican sugar cane prices have been rather volatile due to a shortage in domestic sugar and increases in international prices; local prices are generally guided by the exchange rate. As of April 16, 2012, prices for crude sugar ranged from US\$0.40 to US\$0.45 per pound (RD\$15-17), while prices for refined ranged from US\$0.45 to US\$0.50 per pound (RD\$17-19). Typically, supermarkets sell raw sugar in two and five-pound packages, while small neighborhood stores (*colmados*) sell the item in very small amounts to meet the needs of lower-income consumers.

STATISTICAL DATA

Sugar Cane for Centrifugal Dominican Republic	2011/2012		2011/2012		2012/2013	
	Market Year Begin: Nov 2010		Market Year Begin: Nov 2011		Market Year Begin: Nov 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	235		235		235
Area Harvested	0	222		226		225
Production	0	4,400		4,700		4,600
Total Supply	0	4,400		4,700		4,600
Utilization for Sugar	0	4,400		4,700		4,600
Utilization for Alcohol	0	0		0		0
Total Utilization	0	4,400		4,700		4,600

Units: 1000 HA; 1000 MT

Sugar, Centrifugal Dominican Republic	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Nov 2010		Market Year Begin: Nov 2011		Market Year Begin: Nov 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	18	18	11	11	50	50
Beet Sugar Production	0		0	0	0	0
Cane Sugar Production	510	510	548	548	540	540
Total Sugar Production	510	510	548	548	540	540
Raw Imports	30	30	49	49	20	15
Refined Imp.(Raw Val)	0	0	0	0	0	0
Total Imports	30	30	49	49	20	20
Total Supply	558	558	608	608	610	610
Raw Exports	210	210	219	219	215	215
Refined Exp.(Raw Val)	2	2	2	2	2	2
Total Exports	212	212	221	221	217	217
Human Dom. Consumption	335	335	337	337	337	337
Other Disappearance	0	0	0	0	0	0
Total Use	335	335	337	337	337	337
Ending Stocks	11	11	50	50	56	56
Total Distribution	558	558	608	608	610	610

Units: 1000 MT