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Global Agricultural Information Network

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Honduras

Sugar Annual

2012

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Report Highlights:

The sugar industry in Honduras aims at increasing investment, refining capacity, and improving efficiency. Sugar production is forecast to reach 499,000 Metric Tons (MT) in 2012/2013. The export forecast for 2012/2013 is estimated at 150,000 MT. The sugar industry foresees that sugar mills will expand and there will be new investments to increase exports. This is due to the new Free Trade Agreements which will provide new markets in 2012 and 2013. Domestic consumption has increased due to population growth and industrial use. Honduras approved the Law for the Production and Consumption of Biofuels with a wide range of fiscal incentives, which will be attractive for investment in the production of ethanol. The regulation of this Law has been already written.

Executive Summary:

The sugar industry in Honduras generates jobs for about 10 percent of the economically active population in Honduras. It is estimated that more than 200,000 people receive direct or indirect benefits from the sugar sector. About US\$50 million is paid in salaries annually and US\$40 million is paid by the sugar mills to independent sugar producers.

Sugar production, commerce and distribution in Honduras are in the hands of the private sector. Sugarcane production is carried out on 50,000 hectares (ha) of land. The sugar mills own 64 percent and independent producers own 36 percent of the land. The sugar industry provides the independent producers technical assistance to improve practices to obtain higher yields. However, some independent producers prefer to rent their land to the sugar mills.

The sugar industry is represented by the Honduran Sugar Producers Association (APAH). All seven sugar mills are members of APAH. These mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH.

Sugarcane production for the 2012/2013 harvest is estimated to increase at 4.7 million metric tons (MT) and for 2011/2012 it is forecast at 4.4 million MT. Sugarcane production for 2010/2011 decreased from Post's estimate due to new data provided by APAH. The decrease was due to climatic conditions.

Sugar production is forecast at 499,000 MT for 2012/2013 and for 2011/2012 it is estimated at 462,000 MT. These increases are expected through an expansion of areas and yields. Production in 2010/2011 was lower than APAH's estimate of 431,000 MT. This was due to the yield being affected by rain and floods.

The export forecast for sugar exports for 2012/2013 is 150,000 MT. APAH foresees that sugar mills will expand and there will be new investments to increase exports. This is due to the new Free Trade Agreements (FTA) which will provide new markets. According to data from the Central Bank of Honduras, the U.S. dollar value of sugar exports was 41 million in 2011. Domestic consumption has increased due to population growth, industrial use, and controlled domestic refined sugar prices.

Factors that affect production are the climate, land tenure insecurity, low agricultural ceilings imposed through industry limits established in the agrarian law, and access to credit. In particular, independent producers were affected with the financial crisis which has reduced available credit.

In December 2007, Honduras approved the Law for the Production and Consumption of Biofuels. The law provides fiscal incentives, such as exemptions from customs tariffs, income tax, and other related taxes for 12 years. APAH conducted feasibility studies on ethanol production. The approval of this law is important for ethanol production investment, since it will standardize the ethanol and gasoline mixtures.

In addition, the mills produce the energy that they use during the harvest months (November – May). The excess energy that they generate is sold to the GOH's National Enterprise of Electric Energy (ENEE). Sugar mills supply about ten percent of national demand.

Production:

Sugarcane is grown on 50,000 hectares (ha) of land, 64 percent of which is owned by the sugar industry and 36 percent by independent producers. The sugar industry is comprised of seven sugar mills and 11 warehouses.

Among the independent producers, about 55 percent are small producers (with 1-18 ha). About 22 percent are medium producers (with 18-53 ha.) and 23 percent are large producers with more than 53 ha.

Sugarcane production for the 2012/2013 harvest is estimated at 4.7 million MT (MMT) and for 2011/2012 it is forecast at 4.4 MMT. Sugarcane production for 2010/2011 decreased from Post's estimate due to new data provided by APAH. The decrease in the estimate is the result of floods that kept sugarcane plantations under water. Area planted in 2012/2013 is increased over 2011/2012 as it is forecasted that sugar mills will expand to meet export opportunities resulting from new trade agreements which Honduras is party to.

Sugar production is estimated to reach 499,000 MT in 2012/2013, while production is forecast at 462,000 MT in 2011/2012. APAH states the increases are due to more land being converted to sugarcane production, as well as there is increased investment and focus within the sugar industry to improve fertilizer use and increase yield. The decrease for 2010/2011 from 431,000 MT to 406,000 MT was due to new data provided by APAH. The decrease in the production is the result of floods and rain that did not allow the sugarcane to produce more sucrose.

Sugar mills are working at 95-100 percent of their productive capacity. The mills are investing in response to the demand for sugar in the market. The recovery rate of sucrose from sugarcane is between nine and 10 percent. From the area harvested, 97 percent of the sugarcane enters into production and three percent is kept for replanting. In recent years, the sugar industry in Honduras has been investing in infrastructure and equipment, thus increasing refining capacity and improving efficiency.

Factors that affect production are rains and floods, land tenure, insecurity, and access to credit. In particular, independent producers were affected by the financial crisis and bank requirements that reduced available credit. Producers are faced with a "high-risk" classification that banks give to loans to the agricultural sector because of a lack of collateral and bad credit history within the sector. Another factor is the limit's on plantation agriculture established in the Agricultural Modernization Law of 1992. This Law established a maximum amount of land that can be dedicated to plantation style agriculture, i.e. large extensions of land owned by a single company. There is a procedure to request an increase to the limit; however, the APAH and others support a revision of the law.

The sugar industry is interested in improving sugarcane and sugar yields through improved irrigation systems and milling technology. Improved sugarcane yields are achieved through the constant evaluation of seeds and technical assistance from research centers in Colombia, Guatemala, and Honduras. The technicians at the sugar mills are also members of the Association of Central American Sugar Technicians. Through this association, members share information and new technological advances.

The sugar industry has a Foundation and programs to provide incentives to sugarcane workers and assist their communities. The industry provides them harvest equipment, health care, school meals, teacher salaries, road

maintenance, literacy program for young people and adults, and credit for small enterprises in the communities where the sugar mills are located.

Consumption:

Domestic sugar consumption in Honduras is forecast at 349,000 MT in 2012/2013. The increase is due to population growth, industrial use, and controlled domestic refined sugar prices. Post is decreasing its initial domestic sugar consumption estimate for 2011/2012 of 334,000 MT to 324,000 MT due to a new estimate from APAH. The new estimate is still higher by 14 percent than 2010/2011 domestic sugar consumption of 282,000 MT. Per capita sugar consumption is 85 pounds per person, including soft drinks, of which 51.2 percent is for beverages, candy factories, and baked goods resulting from an increase in rural bakeries. The remaining 48.8 percent is for direct use.

Trade:

The export forecast for sugar exports for 2012/2013 is 150,000 MT. Sugar exports are estimated at 139,000 MT for 2011/2012. Exports recorded in 2010/2011 were 124,000 MT. This shows an increase of 4 percent in 2011 from the estimate due to the sugar industry's investment to improve refining capacity. APAH indicates that the goal is to first supply the domestic market and then fulfill the CAFTA-DR and World Trade Organization (WTO) quotas. After these markets have been supplied, the sugar mills will proceed to export to the rest of the world. APAH foresees that sugar mills will expand and there will be new investments to increase exports. This is due to the new Free Trade Agreements (FTA) which will provide new markets. The sugar industry is waiting for the ratification of the FTA with Mexico in 2012. The FTA will provide 8 percent of the Mexico's requirements. In addition, the sugar industry will increase investment to supply the FTAs of Canada and the European Union in 2013.

The sugar industry of Honduras complies with shipping its full tariff rate allocation of raw cane sugar with the United States and with the WTO. APAH adds that if the United States Government were to reallocate any potential shortfalls or increase, the FY2012 raw cane sugar Tariff Rate Quota, Honduras could supply 20,000 metric tons of additional raw sugar by September 30, 2012.

It should be noted that countries of the Central American region cannot export or import raw sugar to their region. This is an agreement within the Central American Customs Union (CACU). All the raw sugar surplus of CACU members is exported out of the Central American region.

According to the latest data from the Central Bank of Honduras, the U.S. dollar value of sugar exports was 41 million in 2011. The main destinations for Honduras's sugar exports were the United States, Russia, Jamaica, Ecuador, Peru, Chile, Trinidad and Tobago, Argentina, the Dominican Republic, Haiti and Bulgaria.

In addition, the Central Bank of Honduras reports that refined imports (raw value) were 440 MT in 2011. The import tariff for raw sugar is 40 percent (consumption tax is not charged). The import tariff for refined sugar is 15 percent plus a 12 percent consumption tax. By law, quality restrictions require vitamin A to be added to sugar for human consumption, which is done by the Honduran sugar industry. The import tariff for raw sugar averages US\$0.35 per kilogram. The import tariff for refined sugar is US\$0.27 per kilogram, according to APAH's estimate based on average U.S. sugar contract #16 prices.

Sugar exports and imports of Honduras by country are the following:

EXPORT TRADE MATRIX

Honduras

Sugar, Centrifugal - Calendar Year 2011

Country	Metric Tons
United States	18,568
Russia	17,019
Jamaica	7,693
Ecuador	7,617
Peru	5,564
Chile	5,063
Trinidad & Tobago	4,538
Argentina	1,794
Dominican Republic	1,519
Haiti	575
Bulgaria	477
Others	826
T O T A L	71,253

Source: Preliminar data. Central Bank of Honduras.

IMPORT TRADE MATRIX

(Raw value)

Honduras

Sugar, Centrifugal - Calendar Year 2011

Country	Metric Tons
United States	352
El Salvador	61
Guatemala	15
Costa Rica	11
Others	1
TOTAL	440

Source: Preliminar data. Central Bank of Honduras.

Please note that data reported as exports and imports in the Production, Supply and Distribution (PSD) tables and the data of the Export and Import Matrix differ. The difference is because of the manner of calculation of sugar export statistics by APAH and the Central Bank of Honduras: APAH export statistics include sugar which has been contracted for export, while the statistics of the Central Bank of Honduras only include sugar which has already been physically exported from Honduras.

Stocks:

Stocks are owned by the sugar mills and are located at the CISA warehouses in Tegucigalpa and San Pedro Sula, located at the north and central part of the country. Stock levels are expected to remain similar in 2012/2013.

Policy:

The GOH does not have an overall policy related to sugar. The Secretariat of Agriculture and Livestock (SAG), the Secretariat of Industry and Trade (SIC), sugar mills, and independent producers created the National Sugar Council through Decree 161-2005 in December 2005. The objective of the Council is to regulate matters between independent producers and sugar mills related to land tenure and technical assistance. There are good relations among the members of the Council. However, the Council does not meet regularly.

Because sugar is considered a basic commodity, which affects the cost of living, SIC must authorize any change in the consumer price for the domestic market. After many years of having the consumer price unchanged, there was an increase in 2010. However, due to the increase of fuel prices, the price of sugar might increase in 2012. The 2012 average prices are indicated in the table shown in the next section on Price Policy. Honduras does not have export taxes: they were eliminated in order to follow WTO recommendations.

For several years, APAH worked and lobbied the Honduran Congress for the approval of the Law for the Production and Consumption of Biofuels. The law was approved and published in December 2007. The law provides fiscal incentives, such as exemptions from customs tariffs, income tax, and other related taxes for 12 years. The regulations for the implementation of the law have been written and they will make clear the percentage mix of ethanol with gasoline. The approval of this law is important for ethanol production investment. The sugar industry foresees that investment in ethanol might be in 2014-2015.

A sugar mill completed a study of the infrastructure and funding requirements to build an ethanol processing plant. According to data from 2008, the cost would be about US\$40 million if the plant were installed in an existing sugar mill. If a new sugar mill with an ethanol processing plant were built, the cost would be between US\$170-200 million.

The sugar mills produce the energy they use during the harvest months (November-April) through the use of bagasse, generating 128 Mwh with a potential of 344 Mwh of electricity. They also sell electricity to the GOH's electric company, supplying about 10 percent of the national demand. Due to the high prices of oil, sugar mills started to use coal during the non-harvest season of May-October to fuel the mills.

Price Policy:

The table below shows the average sugar prices for plantation white (standard) and refined sugar sold at the wholesale market and to the consumer.

Honduras Average Sugar Prices

2012

US\$/pound

Sale place	Plantation white	Refined
Wholesale	0.33	0.34
Consumer	0.38	0.42

Source: Honduran Sugar Producers Association (APAH)

At present, the exchange rate between the Honduran currency, the Lempira and the U.S. dollar is fixed at US\$1 = L.19.21.

Further information can be found at the Honduran Producers Sugar Association (APAH) website:

www.azucar.hn

Marketing:

The seven sugar mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH and has 11 warehouses in the country. CISA distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging. CISA has also increased its distribution areas in the northern region of the country. It was using one *quintal* bags (equivalent to 45.36 kilograms, or 100 pounds). CISA has changed, however, to 50 kilograms bags to bring Honduras in line with neighboring countries. It also has small packages to offer to restaurants and hotels, as well as at the retail level.

Production, Supply and Demand Data Statistics:

(1000 MT)

Sugar, Honduras	Centrifugal		2010/2011		2011/2012		2012/2013	
	Market Year Begin: Sep 2010		Market Year Begin: Sep 2011		Market Year Begin: Sep 2012			
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post		
Beginning Stocks	238	238	379	238			237	
Beet Sugar Production	0	0	0	0			0	
Cane Sugar Production	431	406	455	462			499	
Total Sugar Production	431	406	455	462			499	
Raw Imports	10	0	10	0			0	
Refined Imp.(Raw Val)	131	0	135	0			0	
Total Imports	141	0	145	0			0	
Total Supply	810	644	979	700			736	
Raw Exports	119	124	120	139			150	
Refined Exp.(Raw Val)	0	0	0	0			0	
Total Exports	119	124	120	139			150	
Human Dom. Consumption	312	282	334	324			349	
Other Disappearance	0	0	0	0			0	
Total Use	312	282	334	324			349	
Ending Stocks	379	238	525	237			237	
Total Distribution	810	644	979	700			736	
TS=TD		0		0			0	

Sugar Cane for Centrifugal Honduras	2010/2011		2011/2012		2012/2013			
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012			
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post		
Area Planted	55	50		52			55	
Area Harvested	54	49		49			53	
Production	4,327	3,817		4,384			4,732	
Total Supply	4,327	3,817		4,384			4,732	
Utilization for Sugar	4,327	3,817		4,384			4,732	
Utilizatr for Alcohol	0	0		0			0	
Total Utilization	4,327	3,817		4,384			4,732	
TS=TD		0		0			0	

