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Colombia

Sugar

Annual

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Report Highlights:
In 2005/2006, sugar production fell to 2.4 million tons from 2.7 million tons the year before. It is expected that sugar production will rise only slightly in 2006/2007. Sugar exports declined 20 percent to 988,000 tons while imports reached 116,000 tons in 2005/2006. Increases in ethanol production changed sugarcane use resulting in significant changes in Colombia's sugar market. Sugar production will continue to be tight in the short term as ethanol demand increases.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Bogota [CO1]
[CO]

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Executive Summary

Sugar production fell to 2.4 million tons in 2005/06 from 2.7 million tons, and is expected to rise only slightly in 2006/2007. Production is expected to rise further in 2007/2008, but at a slower rate.

The Colombian sugar situation and outlook is being defined by the significant increase in demand for ethanol. Colombia's ethanol production reached full capacity by the second quarter of 2006, and as a result, sugar production fell along with sugar exports as more sugarcane was diverted to ethanol production. At the same time, exports of confectionary products increased resulting in a deficit in sugar supplies and a need to increase raw sugar imports.

Colombia imports raw sugar at a reduced duty from Brazil as a result of CAN-MERCOSUR free trade agreement, and duty free from Ecuador as member of the Andean Community. Although, the United States and Colombia signed the Colombian Trade Promotion Agreement (CTPA) in November 2006, the agreement has yet to be ratified in either country. If approved and implemented, the CTPA will provide increased market access for U.S. confectionary products. As part of the Ministry of Agriculture's commitment to aid those commodity groups negatively affected by the CTPA, Congress approved a new law named "Agriculture Secure Income" (AIS) that secured funding for supporting agriculture production. Under this law, sugarcane producers will receive credit from FINAGRO, Colombia's government bank for agriculture development, which will subsidize the loans by forgiving up to 40 percent of the principal.

Production

Colombia's Sugar production fell to 2.4 million tons in 2005/06 from 2.7 million tons, and is expected to rise only slightly in 2006/2007. Production is expected to rise further in 2007/2008, but at a slower rate.

The overall decrease in sugar production was largely due to the increase use of sugarcane for ethanol production. Colombian ethanol is produced in five ethanol plants owned by major sugar producers. In 2007/2008, sugar production is forecast to increase, but at a much slower rate as increases in sugarcane planted area have been marginal to date.

Although there are no official statistics on how much new sugarcane has been planted, since the shift to greater ethanol production started, marginal lands adjacent to traditional sugarcane areas have been planted with sugarcane to cover the increasing demand for ethanol and sugar. However, land availability is very limited in the Cauca Valley, the major sugarcane growing region. New planted areas are located mainly in the northern boundary of the traditional sugar cane area. New plantings have also been stimulated by the rally of stronger international prices beginning in the second half of last year.

There are five ethanol plants located in Colombia, and each one is owned by a sugar mill. Current ethanol production capacity is 1.1 million liters per day. This production supplies an estimated 60 percent of total need to comply with the government requirement to mix 10 percent ethanol with gasoline. To cover the remaining 40 percent there are plans to produce ethanol from cassava and sugarcane currently used for panela production, however, investments in facilities have not yet started.

Colombia is the second largest **non-centrifugal sugar (panela)** producer country after India. Colombian panela production was calculated at 1.36 million tons in 2006, and the area harvested was calculated at 225,000 hectares distributed among 70,000 farms, which employs approximately 20,000 subsistent farmers located throughout the country.

Consumption
Sugar consumption in Colombia is expected to reach 1.55 million tons in 2006/07. Sugar use is increasing due to increasing production of confectionary products for export. Confectionary-product exports grew 17 percent in value and 10 percent in volume in 2006, and the prospect is for continued growth over the next few years. Refined sugar consumption has, in contrast, been declining because of a strong increase in refined sugar price to consumer, which rose over 30 percent in 2006. Prices in 2007 have remained relatively high.

Colombian retail prices are higher than international prices because of the government support program -- Price Stabilization Fund -- that guarantees an average price to sugar mills. (see policy below).

Source: FAS, supermarket survey.

Trade
Colombian sugar exports declined 20 percent in 2005/2006, due to increased production of ethanol. It takes approximately 243,000 tons of sugarcane to produce 1.1 million liters of ethanol a day. Of the total reduction in sugar exports, raw sugar exports declined 27 percent and refined sugar exports fell 19 percent. In 2006/2007, Colombian sugar exports are expected to rise, but at a slower rate as sugar production stagnates.

In 2005/2006, for the second consecutive year, Peru was the top destination for Colombian sugar exports although export volume fell to 125,663 tons from 172,459 tons. These exports represented 13 percent of total Colombian exports. Colombia exported to Chile and Haiti 125,369 tons, and 122,885 tons respectively. The United States bought 105,168 tons of sugar from Colombia, approximately 11 percent of total exports.

Imports of sugar surged to 116,000 tons to attend sugar requirements for the local market. Brazil was the main supplier with an 80 percent market share, while Ecuador accounted for 15 percent of the market in 2005/2006. Imports are expected to continue to rise due to the lack of sugarcane supply needed to fulfill both ethanol and sugar demand.

The U.S. Sugar Tariff-Rate Quota

The U.S. sugar tariff-rate quota for Colombian exports was fixed at 30,760 tons for the October 2006-September 2007 fiscal year. Considering the U.S. price well above the international average, the Colombian sugar millers consider the quota important because of its profitability. The quota is assigned to exporters through the Ministry of Foreign Trade, who issues the sugar quota certificates. Traditionally, large sugar mills obtain 80 percent of the quota, and panela producers the remaining 20 percent. Sugar exports outside of the tariff-rate quota are sold at world prices.

Stocks

The government does not have programs or incentives for sugar mills to keep inventories. The sugar industry holds enough inventories needed to meet local and export demand. Sugar mill sugar stocks are projected to decline to 91,000 tons in 2006/2007, from 96,000 tons in 2005/06.

Policy

Production

The Government of Colombia issued Decree 2908 on October 14, 2003 exempting new sugarcane planted areas from taxes for the next 14 years. Colombia's Congress approved the new law called "Agriculture Secure Income" (AIS), which ensures government funding to support agriculture production. The law establishes an annual amount of $215 million to be used to assist producers of selected commodities. Under this law, sugarcane production will receive loans from FINAGRO, a government bank, which will subsidize loans by forgiving up to 40 percent of the principal. The subsidized credit will be based on the size of the company and whether the producer is a member of a cooperative or an individual farmer.

Sugar Price Stabilization Fund

Sugar exporters receive a payment for sugar exports derived from a "price stabilization fund" that obtains its funding from a levy applied to domestic sugar sales. Thus, sugar mills receive an average price that is somewhere between the international sugar price and the local market price. The fund was established by the Ministry of Agriculture and has been implemented since January 2001.

Price Band

Under Andean Community regulations, sugar imports from other Andean Community countries are allowed duty-free entry into the Colombian market. Imports from outside the Andean Community are subject to a variable duty under the Andean price band system. Under the price band system, the basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent. This basic duty is subject to increase if imports are priced below a predetermined trigger, or floor price, or be reduced if prices are above a predetermined ceiling price.

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. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price 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 levy or 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 duty 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 2007 to March 2008 as follows:

	Floor Price $ per ton	Ceiling Price $ per ton
Raw Sugar	233	304
Refined Sugar	322	402

For the first two weeks of April 2007, reference prices for raw and refined sugar were set at $260/ton and $372/ton respectively. Thus, Colombia's current total effective duty -- basic duty plus surcharge--on imports of raw sugar and refined sugar is equivalent to 20 percent of the invoice price per ton, since the reference prices are currently within the price ban for both raw sugar and refined sugar. For more details please see: http://www.comunidadandina.org/comercio/franja_circular.htm.

Colombian Trade Promotion Act (CTPA)– Colombia and the United States signed a free trade agreement in November last year. Under this agreement the price band duty system will be removed for imports from the United States. The CTPA is pending congressional approval in both countries and will need an additional approval from the constitutional court in Colombia before it can be implemented. The agreement set a TRQ of 10,000 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 will be reduced 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 Boliva) have free access to Colombia's sugar market, as does Colombia to each of their sugar 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 reductions 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 duty preferences are as follows: Argentina and Brazil, 12 percent; Paraguay, 34 percent; and Uruguay 20 percent.

Tables

Colombia: Centrifugal Sugar, PS&D, 2005/06 – 2007/08 (1,000 tons)

Colombia										
Sugar, Centrifugal										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/YYYY
Beginning Stocks	84	84	84	79	79	96	69	69	91	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	2390	2390	2439	2360	2360	2445	0	0	2460	(1000 MT)
Total Sugar Production	2390	2390	2439	2360	2360	2445	0	0	2460	(1000 MT)
Raw Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	25	25	116	25	25	120	0	0	120	(1000 MT)
Total Imports	25	25	116	25	25	120	0	0	120	(1000 MT)
Total Supply	2499	2499	2639	2464	2464	2661	69	69	2671	(1000 MT)
Raw Exports	380	380	380	360	360	380	0	0	380	(1000 MT)
Refined Exp.(Raw Val)	510	510	608	500	500	630	0	0	650	(1000 MT)
Total Exports	890	890	988	860	860	1010	0	0	1030	(1000 MT)
Human Dom. Consumption	1525	1525	1550	1530	1530	1555	0	0	1560	(1000 MT)
Other Disappearance	5	5	5	5	5	5	0	0	5	(1000 MT)
Total Use	1530	1530	1555	1535	1535	1560	0	0	1565	(1000 MT)
Ending Stocks	79	79	96	69	69	91	0	0	76	(1000 MT)
Total Distribution	2499	2499	2639	2464	2464	2661	0	0	2671	(1000 MT)

Colombia: Exports of Centrifugal Sugar, 2005/06

Export Trade Matrix			
Colombia			
Sugar, Centrifugal			
Time Period	**Sep/Aug**	**Units:**	**MT(0,000)**
Exports for:	**2006**		**2007**
U.S.	105	U.S.	
Others		Others	
Peru	126		
Chile	125		
Haiti	123		
Cuba	94		
Venezuela	83		
Canada	67		
South Korea	50		
Jamaica	49		
Sri Lanka	29		
Total for Others	746		0
Others not Listed	139		
Grand Total	990		0

Source: Statistics' National Department (DANE)

Colombia: Retail Prices for Refined Sugar, 2006 –2007
(Pesos per kilogram)

Prices Table			
Colombia			
Sugar, Centrifugal			
Prices in	Col Pesos	per uom	Kilogram
Year	2006	2007	% Change
Jan	1593	2058	29%
Feb	1635	2059	26%
Mar	1820	2117	16%
Apr	1833		-100%
May	2083		-100%
Jun	2215		-100%
Jul	2279		-100%
Aug	2268		-100%
Sep	2252		-100%
Oct	2179		-100%
Nov	2197		-100%
Dec	2078		-100%
Exchange Rate	2,166.93	Local Currency/US $	
Date of Quote	4/9/2007	MM/DD/YYYY	

Source: FAS, supermarket survey.