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Jamaica & Dep

Sugar

Annual

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Report Highlights:

Jamaica sugar production remains stable. Future production will depend largely on weather conditions.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Santo Domingo [DR1], JM

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Executive Summary

Jamaica's sugar production is expected to remain static during 2001/2002 despite continued implementation of the Sugar Industry's new five year development plan. The industry continues to be plagued with high production costs, low productivity, high factory down time and low yields. The Government of Jamaica (GOJ), which consistently injects capital to the sugar industry, has decided to take a hard look at the viability of the industry.

The consumption of refined sugar at the retail level is expected to continue decline under the influence of the amended GOJ refined sugar importation policy geared at reducing the entry of duty free sugar to the consumer market. Importation of raw sugar is also expected to decline as the industry continues to explore ways of improving the viability of the industry.

Production Supply and Distribution Tables

PSD Sugar Cane Non-Centrifugal

PSD Table						
Country	Jamaica & Dep					
Commodity	Sugar Cane, Non-Centrifugal				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2001		01/2001
Area Planted	43	39	43	38	0	38
Area Harvested	40	36	40	35	0	35
Production	2300	2231	2400	2152	0	2205
TOTAL SUPPLY	2300	2231	2400	2152	0	2205
Utilization for Sugar	2300	2231	2400	2152	0	2205
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	2300	2231	2400	2152	0	2205

PSD Centrifugal Sugar

PSD Table						
Country	Jamaica & Dep					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		12/2000		12/2001		12/2002
Beginning Stocks	10	10	4	15	5	10
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	200	205	215	203	0	208
TOTAL Sugar Production	200	205	215	203	0	208
Raw Imports	38	15	30	20	0	20
Refined Imp.(Raw Val)	60	69	60	68	0	68
TOTAL Imports	98	84	90	88	0	88
TOTAL SUPPLY	308	299	309	306	5	306
Raw Exports	180	157	180	168	0	168
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	180	157	180	168	0	168
Human Dom. Consumption	124	127	124	128	0	128
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	124	127	124	128	0	128
Ending Stocks	4	15	5	10	0	10
TOTAL DISTRIBUTION	308	299	309	306	0	306

Production

The 2001/2002 sugar cane crop is expected to produce approximately the same quantity of sugar as the 2000/2001 crop from a slightly higher quantity of sugar cane. The 2001/2002 sugar cane harvest began at the Frome sugar estate during early December. Additionally five other factories commenced operation during January and February 2002. Two remaining factories, Hampden and Long Pond, commenced operation on April 4 and March 8, 2002, respectively. As of April 9, 2001, the crop was 7 days ahead of the 2000/2001 crop, the factories had ground 1,096,181 MT of sugar cane producing 99,905 MT of 96 degree sugar at a tons cane per tons sugar (TC/TS) ratio of 10.97. When compared to the corresponding period of the 2000/2001 crop, these indices represent an 11.26 percent decline in the quantity of sugar cane ground, a 15.83 percent decline in raw sugar production and a slip in the TC/TS ratio by 0.56. When measured against the 1999/2000 crop, the best recorded by the industry in 37 years, these performance measures represent an alarming 38.15% decline in 96 degree sugar production, a 27% decline in sugar cane ground and a slip in the TC/TS ratio by a 1.57. Accounting for losses due to illicit cane fires and cattle damage and assuming stable weather conditions and the absence of industrial actions, the 2001/2002 sugar cane crop is expected to produce approximately 203,000 MT of 96 degree sugar, one percent less than last year's crop and 33 percent below the 300,000 MT viability target set by the industry.

For the 2000/2001 cane crop, total production of 96 degree sugar decreased by 5.5 percent over the previous crop to 204,500 MT despite a 10.3 percent increase in the volume of sugar cane delivered to the factories. The disproportionate decrease in sugar production was due primarily to reduced cane quality as reflected by a worsening of the TC/TS ratio from its 37-years record best of 9.36 in 1999/2000 to 10.91. The decline in sugar cane quality during 2000/2001 is attributed to the influence of less favorable weather conditions during the planting and harvesting periods and high levels of downtime. In addition, several factors continue to have a negative impact on production, namely, limited loan and replanting programs, poor agronomic practices, heavy debt burdens, poor infrastructure, high levels of illicit cane fires and cattle damage. The 2000/2001 cropping time of 184 days was a significantly improvement over 224 days during the 1999/2000 crop and only 2 weeks in excess of the industry's 24 week target.

The apparently sluggish performance of the 2000/2001 crop relative to the exceptional 1999/2000 crop, does not reflect slippage in the industry's progress. The extraordinary quality of the 1999/2000 crop resulted entirely from favorable weather conditions, and not from deliberate manipulation of any controllable production or processing variables. When compared to the 1998/1999 sugar cane crop, the production parameters of the 2000/2001 crop do not reflect any significant variations. In fact, sugar production remained constant at 204,000 MT, the TC/TS ratio improved marginally from 11.32 to 10.91 and average industry productivity remained constant at 61,000 MT per hectare.

With respect to the distribution of sugar cane production between estates and farmers, estates accounted for 57.5 percent of total sugar cane production during the 2000/2001 crop, an increase of 2.5 percentage points over the 1999/2000 crop. Despite the 15.75 percent increase in average industry productivity from 52,950 MT of cane per hectare (Tc/ha) in 1999/2000 to 61,290 Tc/ha in 2000/2001 (81 percent of the industry's viability target), the decline in crop quality marginally reduced the ton sugar per hectare (Ts/ha) from 5,660 MT to 5,620 MT. The lower quality was caused by less favorable weather conditions and factory down time.

Actual grinding time in the industry declined from 66.58 percent in 1999/2000 to 62.19 percent in 2000/2001, primarily due to longer downtime. The principal causes of the low utilization rate are mechanical stopages, unfavourable weather conditions and the lack of cane.

Crop Area

The Area under sugar cane cultivation varies from year to year within a narrow range of 40,000 to 46,000 hectares, of which 82 to 93 percent is usually harvested. For the current crop, 39,000 hectares of land is estimated to be under sugar cane cultivation. During the 2000/2001 crop, 39,247 hectares of land was planted with sugar cane, of which 35,887 hectares were harvested. Of the harvested acreage, farmers and estates accounted for an estimated 19,056 hectares and 16,830 hectares, respectively. Replanting increased by 2 percentage points from 6 percent of total area under cultivation to 8 percent. As the Government continues to explore measures to restore viability in the sugar industry, a task force was set up during 2001 to investigate the viability of the sugar industry. The alternatives explored by the task force include, the removal of lands from sugar production in order to improve efficiency and productivity. Since the GOJ has not yet incorporated any of the recommendations of the tasks force into sugar industry policy, there are no indications of changes in the area under cultivation for the 2002/2003 sugar crop.

The industry needs to replant with higher yielding varieties in order to increase production and lower cost. The Sugar Industry Research Institute continues to research and commercialize high yield cane varieties. Replanting, especially by small farmers, remains insufficient. Replanting costs, which vary between US$ 1,313 and US$2,013 per hectare, continue to deter replanting efforts from the industry's targeted 16.67 percent. Only 8 percent of the total area under cultivation was replanted during the 2000/2001 sugar crop. Current production costs of US$ 650 per MT is well in excess of the US$500 per MT average annual revenue realized by the industry.

Crop Quality

Sugar cane quality, as measured by the Jamaica Recoverable Cane Sugar (JRCS) and the TC/TS ratio, shows significant decline during the 2000/2001 crop. The JRCS declined by 1.1 units from 11.21 in 1999/2000 to 10.10 in 2000/2001. The reduced quality of the 2000/2001 crop is attributed to unfavorable weather conditions during the planting and harvesting period and extended factory downtime.

Production Policy

Faced with a high cost, low productivity and generally inefficient sugar industry, the GOJ and sugar industry officials are considering major policy changes to bring the ailing sugar industry to globally competitive levels. Investment priorities and objectives are outlined in the industry's five year development plan which was drafted in 1999/2000. The GOJ subsequently commissioned a task force in 2001 to investigate the viability of the sugar industry and to make recommendations on alternative courses of action.

According to the report of the task force, the major challenges facing the sugar industry in Jamaica continue to be the high cost of production resulting from the many inefficiencies from field to factory and beyond and low field productivity. The report indicates that an annual output of 220,0000 MT (the assumed aggregate demand for Jamaica's sugar) of raw sugar at a cost of US$0.19 per pound would be sufficient to restore viability to the industry.

The five year sugar industry development plan further identified industry problems such as low cane production and yields, poor cane quality, low employee morale, low marginal productivity of labor, declining sugar prices, increasing debt burden, high interest rates and untimely financing of inputs. During the first two years covered by the industry's five year plan, the 2000/2001 and 2001/2002 crops, the outlined objectives have not been achieved.

Consumption

Since the 1990's, Jamaica's annual sugar consumption ranged between 118,000 MT and 137,000 MT. Over the last five years, sugar consumption has been relatively stable at approximately 124,000 MT per year. While total sugar consumption is expected to remain stable for another few years, consumption of refined sugar, which is used mostly for manufacturing purposes, is expected to decline due both to government policy and expected declines in the manufacturing sector. The proposed amendments to the GOJ's refined sugar importation policy aimed at stemming the entry of duty free refined sugar to the consumer market is expected to curtail the consumption of refined sugar at the retail level to 5,000 MT per year. It is estimated that the manufacturing sector has an annual demand of 45,000 MT of refined sugar. Due to high production costs, and high interest rates, sugar based products manufactured in Jamaica are higher priced and less competitive in the price sensitive Jamaican market than their imported counterparts. As imported products continue to dominate the domestic market, the production of sugar based products and the resulting local consumption of refined sugar by the manufacturing sector are expected to decline in the medium to long-term.

While overall sales of raw sugar on the Jamaican market increased by 6.61 percent during 2000/2001, the quantity sold of domestically produced raw sugar rose by 90 percent from 24, 352 MT during 1999/2000 to 46,285 MT. The sale of imported raw sugar on the domestic market declined by 72 percent from 35,716 MT to 9,812 MT during 2000/2001.

At the retail level, sugar consumption remains stable. The expected decline in the consumption of refined sugar resulting from the GOJ's policy amendment will be offset by an increase in the consumption of raw sugar at the retail level. Artificial sweeteners are used only by a minority and mostly for health reasons, i.e. diabetes. Sugar prices have remained fairly stable. This has helped to maintain consumption levels.

Trade

The sugar industry continues to satisfy its quota allocation while importing both raw and refined sugar to meet domestic demand. The EU quota remains at 127,000 MT with an additional 50,000 MT under the Special Protocol Sugar arrangement. The US Tariff Rate Quota allocation is especially prized by Jamaica's sugar industry.

During the 2000/2001 crop, Jamaica exported 156, 907 MT of raw sugar valued at US$ 71,454,870 MT, 14.68 percent below the US$ 83,757,356 exported during 1999/2000. Of the 156, 907 MT exported during 200/2001, 120, 928 MT of protocol sugar went to the United Kingdom at a value of US$ 56,792,383. Additionally, 35,933 MT was shipped to Portugal under the Special Preferential Sugar (SPS) arrangement at a value of US$ 13,382,341. For a second consecutive year, no sugar was shipped to the United States, but the Certificate of Quota Eligibility. During 1999/2000, 168,897 MT of sugar was exported from Jamaica, of which 134,167 MT was protocol sugar, and 4,470 MT and 30,220 MT were exported to the UK and Portugal, respectively under the SPS arrangement.

Earnings from the UK market decreased significantly due to the depreciation of the Euro vis-a-vis the US dollar. Earnings per MT of sugar exported to the UK declined by 6.49 percent from US$502.23 during 1999/2000 to US$469.64 in 200/2001, costing the industry a relative aggregate loss of approximately US$ 5.1 million.

On the import side, raw sugar imports declined slightly during the 2000/2001 crop but remained fairly high as local production fell short of domestic and export demand. During the 2000/2001 crop, 14,826 MT of raw sugar was imported by the Sugar Industry Authority, a 46% decline relative to the previous year. Assuming successful implementation of the GOJ's policy to bring the sugar industry to its predetermined profitability level, raw sugar imports should gradually decline over the medium term. The Sugar Industry Authority has projected imports of 12 MT of raw sugar during 2001/2002, a further 19 percent decline.

Jamaica will continue to import refined sugar as long as the export markets remain a priority and local production falls short of the industry's viability target. The real influencing factor is the extent of growth in the manufacturing sector, particularly the soft drinks industry. The United States is the main supplier of refined sugar, accounting for approximately 35.7 percent of total imports during 2000/2001. Other suppliers include Columbia, EU, Mexico and Brazil. The Sugar Industry Authority is currently exploring the feasibility of upgrading the Monymusk sugar refinery to fulfill local demand of 60,000 MT of refined sugar annually. If the project is feasible, and investment capital is available, this could reduce refined sugar imports and expand the area under cultivation and sugar cane production.

In the domestic market, based on the lower cane quality, manufacturers and growers were paid a slightly lower price of J$ 18,697 per MT of sugar, compared with J$ 19,107 per MT of sugar during the 1999/2000 crop. The industry retains its agreed payment formula of 62 percent and 38 percent of proceeds respectively, to growers and manufacturers.

Stocks

The liberalization of refined sugar importation allows the Jamaica Cane Products Sales (JCPS), private brokers and manufacturers to import and hold stocks of refined sugar. Raw sugar stock is held exclusively by the JCPS. As of October 31, 2001 the JCPS held 14,437.55 MT of raw sugar and 388.44 MT of refined. With a relative improvement in the stabilization of the exchange rate, private importers are expected to commit less of their working capital to sugar inventory.

Policy

The GOJ has made public its intention to re-privatize the sugar industry within the next five years. After an unsuccessful divestment in 1994/1995 the GOJ re-acquired the bulk of the industry in 1998. The GOJ=s decision to assist the industry was based on the fact that the industry is a major foreign exchange earner, provides employment to approximately 40,000 people, and benefits from preferential trading agreements. However, faced with an increasing trade deficit, high external debt burden, and the negative trade implications of the EU's Everything But Arms (EBA) initiative, the GOJ has determined that the industry cannot exist in its present high cost - low productivity status. Consequently, a committee consisting of representatives from financial institutions, Ministries of Finance, Trade and Agriculture, and sugar industry officials was composed to draft a plan for the future of the industry. While diversification out of sugar production is a likely and well considered option, re-privatization after a J$ 3 billion investment is the first and unanimously preferred proposal.

The government has proposed an adjustment to its 1994 liberalized refined sugar importation policy. Prior to 1994, Jamaica Cane Products Sales (JCPS), the central marketing agency for the sugar industry, maintained monopoly power in the importation and distribution of refined sugar. A benchmark price regime for the determination of duties on imported refined sugar was adopted from 1994 to 1999. The benchmark price regime identified a price (related to refined sugar prices in the major international markets) below which any refined sugar entering the island would be subject to an Additional Stamp Duty to equate it to this price. Due to international price volatility (which makes it difficult to maintain a reasonable benchmark price) and deliberate over-invoicing by importers, the system was replaced with a two-tiered method of tariff determination. The two-tiered tariff system accommodated duty-free entry of refined sugar for manufacturing purposes while refined sugar for the consumer market (retail) attracted a 40 percent Common External Tariff (CET) plus a 63 percent stamp duty. Due to entry of duty-free sugar (imported for manufacturing) to the consumer market and the resulting disruption in domestic demand for brown sugar, the government has proposed an amendment to its importation policy. The new proposal, still being debated, would grant import licenses to large manufacturers and the JCPS. Small and medium-sized manufacturers would source refined sugar from an exclusive broker, the JCPS, at duty-free rate plus a marginal mark-up. Retail distribution of refined sugar would be the responsibility of the JCPS.