Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 6/22/2000

GAIN Report #ES0004

El Salvador

Oilseeds and Products

Annual

2000

Approved by:
Suzanne E. Heinen, Ag Counselor
U.S. Embassy, Guatemala
Prepared by:
Miguel Fabio Herrera, Agricultural Specialist

Report Highlights:
Palm and soy oil continue to chop away marketshare from traditional cottonseed oil imports. Salvadoran consumers have shifted to a price oriented market. Total oil consumption is expected to increase at 3.5 percent per year because of expected positive economic growth. Soybean meal imports are also expected to continue at this pace to meet the demand of the local poultry industry.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Guatemala [GT1], ES

TABLE OF CONTENTS

Executive Summary

El Salvador has shifted from a quality oriented market to a price oriented market. Cottonseed oil used to be the preferred vegetable oil among local consumers. However, cheaper imports of palm and soy oil have gained market share. In 1999, El Salvador's total cottonseed oil imports and consumption were much lower than previously reported. The main reason for the decrease in cottonseed oil use is price. In MY 2000, cottonseed oil imports are expected to reach 2,000 MT, of which 83 percent is expected to be supplied by the United States. Cottonseed oil consumption has dropped from capturing over 90 percent of total vegetable oil consumption to approximately 5 percent for CY 1999. Palm, soybean and sunflower oil imports continue to gain market share and are expected to gradually reduce consumption of cottonseed oil in the near future. In CY 1999, palm oil imports increased by approximately 13.0 percent compared to CY 1998. El Salvador has been included in a regional GSM-102 program for FY 2000. Local processors have been reluctant to utilize this program, choosing instead to use credit from suppliers.

Soybean meal imports in CY 1999 increased by 20.0 percent compared to CY 1998 reaching 130,508 MT. The use of soybean meal for feeding purposes by the local poultry industry is the main reason for the higher imports. In addition, the overall performance of the Salvadoran economy was much better in CY 1999 than in CY 1998.

PSD Table						
Country	**El Salvador**					
Commodity	**Oil, Cottonseed**				(1000 MT) (PERCENT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Crush	0	0	0	0	0	0
Extr. Rate, 999.9999	ERR	ERR	ERR	ERR	ERR	ERR
Beginning Stocks	2	2	1	1	0	1
Production	0	0	0	0	0	0
MY Imports	12	7	8	3	0	2
MY Imp. from U.S.	12	7	8	3	0	2
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	14	9	9	4	0	3
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	13	8	8	3	0	2
Feed Waste Dom. Consum	0	0	0	0	0	0
TOTAL Dom. Consumption	13	8	8	3	0	2
Ending Stocks	1	1	1	1	0	1
TOTAL DISTRIBUTION	14	9	9	4	0	3
Calendar Year Imports	14	9	10	4	0	3
Calendar Yr Imp. U.S.	14	9	10	4	0	3
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Production

Salvadoran cotton production has fallen dramatically over the past several years. High production costs and relatively lower priced imports have reduced Salvadoran cotton planted acreage from a high of 150,000 Has. to virtually zero. However, the Government of El Salvador (GOES) through the Ministry of Agriculture (MAG) has targeted cotton as one of the crops that offer potential for growth in the agricultural sector. New plantings will depend on the financial support that farmers receive to bring back into production the area that was once dedicated to cotton. Enhanced Caribbean Basin Initiative (CBI) treatment for textiles, and low world sugar prices may also spur a return to local cotton production.

Consumption

Total vegetable oil consumption is growing at a rate of 3.5 percent. El Salvador's long standing preference for cottonseed oil has gradually shifted, basically due to a more price oriented market. Lower palm and soybean oil prices relative to cottonseed oil prices are the cause for this change in consumer preference. In CY 1999, cottonseed oil consumption decreased by nearly 60 percent compared to CY 1998. On the other hand, palm and soybean oil imports increased by 13 and 110 percent respectively in CY 1999.

Consumption of cottonseed oil is expected to decrease in MY 1999, reaching approximately 3,000 MT. In MY 2000, cottonseed oil imports are expected to continue declining. Not only are palm oil prices expected to be lower than cottonseed oil, but soybean oil has also captured a large share of the Salvadoran vegetable oil market. Due to Brazil's positive soybean production and currency situation, prices for soybean oil are very attractive to the local market. As a result, cottonseed oil consumption in MY 2000 is forecast at 2,000 MT.

The processed food and HRI sector (Hotel/Restaurant/Institutional) are also fueling the growth for consumption of vegetable oil. Export of snacks has grown tremendously, lifting the use of vegetable oils. In addition, the fast food market continues to expand at a rapid rate adding to the overall growth of total vegetable oil imports.

Trade

In CY 1999, El Salvador's imports of cottonseed oil dropped 61 percent while soybean oil imports increased by an outstanding 110 percent. Total vegetable oil imports are increasing at a modest 3.5 percent rate. Based on information supplied by the local vegetable oil industry, cottonseed oil imports in MY 1999 are forecast at approximately 3,000 MT. Imports from the U.S. are expected to account for approximately 82 percent of this total. Sunflowerseed oil imports have also grown at a rapid pace. In CY 1999, imports grew by 115 percent reaching 6,807 MT.

El Salvador continues to increase imports of palm oil in search of low-cost vegetable oil. Honduras and Guatemala have become the main suppliers of this oil to the local market. In CY 1999, El Salvador imported 37,978 MT of palm oil, of which 15,144 came from Honduras and 13,808 from Guatemala. Sunflower seed oil imports have been small in the past due to a lack of appropriate refining equipment which hinders its use as an economically viable alternative. However, in CY 1999 El Salvador imported 6,807 MT of Sunflower seed oil of which almost 64 percent was supplied by the U.S. Cottonseed oil imported from Guatemala is originally a U.S. product. However, after the raw oil has gone through some process locally, the product is then considered as originated in Guatemala.

Soybean meal imports are increasing due to high demand from local poultry and livestock sectors. The U.S. is the dominant supplier of soybean meal to El Salvador. In CY 1999, El Salvador imported 130,508 MT of soybean meal and U.S. imports accounted for 96 percent of that total.

Import Trade Matrix			
Country	**El Salvador**		
Commodity	**Oil, Cottonseed**		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	8748	U.S.	2888
Others		Others	
Guatemala	175	Guatemala	613
Total for Others	175		613
Others not Listed			
Grand Total	8923		3501

Import Trade **Matrix**			
Country	**El Salvador**		
Commodity	**Oil, Soybean**		
Time period	**CY**	**Units:**	**MT**
Imports for:	**1998**		**1999**
U.S.	**11565**	**U.S.**	**26034**
Others		**Others**	
Costa Rica	**1392**	**Costa Rica**	**1281**
Honduras	**167**	**Uruguay**	**200**
Total for Others	**1559**		**1481**
Others not Listed			
Grand Total	**13124**		**27515**

Import Trade Matrix			
Country	El Salvador		
Commodity	Oil, Sunflowerseed		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	2150	U.S.	4337
Others		Others	
Guatemala	578	Guatemala	1890
Spain	433	Spain	580
Total for Others	1011		2470
Others not Listed			
Grand Total	3161		6807

Import Trade Matrix			
Country	**El Salvador**		
Commodity	**Meal, Soybean**		
Time period	**CY**	**Units:**	**MT**
Imports for:	**1998**		**1999**
U.S.	**105751**	**U.S.**	**124683**
Others		**Others**	
Nicaragua	**2237**	**Nicaragua**	**4656**
Costa Rica	**704**	**Guatemala**	**982**
Total for Others	**2941**		**5638**
Others not Listed	**85**		**187**
Grand Total	**108777**		**130508**

Marketing

The Salvadoran vegetable oil market has become very dependent upon price. In addition, increasing palm oil production in neighboring Honduras and Guatemala, is rapidly capturing a large portion of the local market. These two countries are also pressuring to change the 5 percent tariff that is assessed on Malaysian palm oil imports. They argue that Malaysian oil should be considered a final product rather than a raw material, subject to the 15 percent import tariff rate.

El Salvador is participating in a FY 2000 regional GSM-102 program. Vegetable oil is included in the program, but so far Salvadoran oil refiners have not imported any vegetable oil under this program. Most oil importers have excellent relationships with U.S. suppliers and can access open credit as needed.

Policy

The GOES has finalized it's tariff reduction program as part of a trade liberalization economic plan. Under the GOES economic plan, import tariffs for final goods were reduced from 20 to 15 percent. Crude vegetable oil imports from the region are currently assessed a 0 percent advalorem tariff and 5 percent from outside the region. Thus, import volume is not expected to change because of the program's lower-tariff policy, but rather because of the expected impact on economic growth.

In addition, the GOES has recently approved a 13 percent Value Added Tax to be imposed on fluid milk. Also, import tariffs for all dairy products were increased to 40 percent in order to protect the local dairy sector. These new measures are expected to boost profitability in the dairy sector and higher imports of feed inputs such as soybean meal are forecasted in the near future.

Local cotton producers are asking for long term financial assistance by the GOES. The cotton producers coop (COPAL) believes that they can supply the demand for cotton in El Salvador. The GOES has not replied to COPAL's request. However, increased cotton plantings are expected to take place in the near term in part because producers are looking for alternate crops in the face of low world sugar prices. Thus, local cottonseed oil could pick up somewhat and ultimately reduce the need for some imports of vegetable oils.