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Report Highlights:

Jamaica's sugar production is expected to decline to 170,000 metric tons during the 2002/2003, its lowest in 56 years. As production of raw sugar declines, Jamaica will import increasing quantities of raw sugar to satisfy domestic demands, while fulfilling export quotas with local production. Domestic consumption of refined sugar will grow at the same modest rate as production of carbonated beverages increase.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Santo Domingo [DR1]
[JM]

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Executive Summary

Jamaica's sugar production is expected to decline to 170,000 metric tons during 2002/2003, its lowest in 56 years. The industry continues to be plagued with high production costs, low productivity, high factory down time and low yields, despite concerted government and private sector efforts to restore profitability. The Government of Jamaica (GOJ), in an effort to preserve the sugar industry will, for the second in less than four years, commission a study to investigate the future of the Jamaica sugar industry. The current industry development plan, which was aimed at increasing productivity to 75,000 tons cane per hectare and 96-degree sugar to 300,000 metric tons, has been widely accepted by sugar industry interest as a failed and unrealistic effort.

As the production of raw continues to decline, Jamaica will import increasing quantities of raw sugar to satisfy domestic demands, while fulfilling export quotas with domestic production. The consumption of refined sugar will continue to grow modestly, as production of carbonated beverages increase.

Statistical Data

PSD Table

Country	Jamaica & Dep						UOM
	Sugar Cane for Centrifugal (1000 HA)(1000 MT)						
Commodity	2002	Revised	2003	Estimate	2004	Forecast	
	USDA Official	(Estimate)	(NA Official)	(Estimate)	(NA Official)	(Estimate)	(New)
Market Year Begin	12/2001		12/2002		12/2003		MM/YYYY
Area Planted	38	38	38	39	0	39	(1000 HA)
Area Harvested	35	34	35	35	0	35	(1000 HA)
Production	2152	1965	2205	1907	0	1980	(1000 MT)
TOTAL SUPPLY	2152	1965	2205	1907	0	1980	(1000 MT)
Utilization for Sugar	2152	1965	2205	1907	0	1980	(1000 MT)
Utilizatr for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	2152	1965	2205	1907	0	1980	(1000 MT)

PSD Table

Country	Jamaica & Dep						UOM
	Centrifugal Sugar (1000 MT)						
Commodity	2002	Revised	2003	Estimate	2004	Forecast	
	USDA Official	(Estimate)	(NA Official)	(Estimate)	(NA Official)	(Estimate)	(New)
Market Year Begin	12/2001		12/2002		12/2003		MM/YYYY
Beginning Stocks	15	15	10	8	10	3	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	203	175	208	170	0	180	(1000 MT)
TOTAL Sugar Production	203	175	208	170	0	180	(1000 MT)
Raw Imports	20	16	20	22	0	18	(1000 MT)
Refined Imp.(Raw Val)	68	68	68	69	0	70	(1000 MT)
TOTAL Imports	88	84	88	91	0	88	(1000 MT)
TOTAL SUPPLY	306	274	306	269	10	271	(1000 MT)
Raw Exports	168	138	168	138	0	138	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL EXPORTS	168	138	168	138	0	138	(1000 MT)
Human Dom. Consumption	128	128	128	128	0	128	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	128	128	128	128	0	128	(1000 MT)
Ending Stocks	10	8	10	3	0	5	(1000 MT)
TOTAL DISTRIBUTION	306	274	306	269	0	271	(1000 MT)

Production

Relatively to the minimum industry viability targets outlined in the five-year sugar industry development plan (1999/2000 - 2003/2004), the first 124 days of harvest for the 2002/2003 sugar crop has produced dismal performance indicators, which clearly signal a failure of government and private sector efforts to restore profitability to an ailing sugar industry. As of April 10, the 2002/2003 sugar cane crop, which was about midway in harvest, had produced only 101,367 metric tons (MT) of 96-degree sugar from 1,137,020 MT of sugar cane at a tons cane per ton sugar (TC/TS) ratio of 11.22:1. When compared to the corresponding period of the 2001/2002 sugar crop, these indices reflect an inappreciable change in 96 degree sugar production from a marginal 2 percent more sugar cane and a slight slip in the TC/TS ratio from 10.96:1 to 11.22:1. The lower cane quality for the 2002/2003 sugar cane crop is expected to restrict production of 96 degree sugar to approximately 170,000 MT, 2.3 percent below the disappointing 174,000 MT produced during the 2001/2002 sugar cane crop and 16.7 percent below the 2000/2001 crop. Jamaica's production of 96-degree sugar is expected to remain in the proximity of 190,000 MT for the near term. The lower cane quality for the 2002/2003 crop is due principally to unfavorable weather conditions during the planting season, which restricted the replanting levels and hampered essential agronomic practices in the early stages of the crop.

Despite extensive financial support by the Government of Jamaica (GOJ), output from the sugar industry continues to decline. During the 2001/2002 sugar cane crop, 96-degree sugar and sugar cane production plummeted by 14.59 and 11.89 percent to a 55-years low of 174,000 MT and 1,965,470 MT, respectively. The decline in output is attributed primarily to the influence of flood rains during the months of May and June, which disrupted the harvesting cycle by more than two weeks and significantly compromised sugar cane supply, factory operations, and crop quality. Actual factory grinding time declined by an alarming 8.7 percentage points from 62.19 percent in 2000/2001 to 53.51 percent during 2002/2002, while the TC/TS ratio, a reflection of crop quality, slipped from 10.91 to 11.25. Of equal importance to output of the 2001/2002 and 2002/2003 sugar cane crops is the low level of replanting which has affect yields and crop quality. During the 2001/2002 and 2000/2001 sugar crops, replanting levels were 7.4 and 8.8 percent below the 16.9 percent industry target. Within the Jamaica sugar industry, the difference in yield between sugarcane fields at first ratoon (year 2) and old fields (years 4 and over) is 20 MT per hectare on average. The low replanting during the 2001/2002 and 2002/2003 sugar crops was due primarily to delay in the replanting loan program and unfavorable weathering conditions during mid-2002.

Since the development of a five-year industry plan in 1999, the divergence between actual and projected output continues to widen over successive crop years. During the 2000/2001 and 2001/2002 crops, sugar production was 19.5 and 34.3 percent short of projection. The divergence is expected to worsen during the 2002/2003 crop to approximately 41 percent short of the industry target. In light of the continued depressed results, the GOJ has, for the second time in less than four years, commissioned a report to investigate the status of the industry and devise a strategic direction to restore profitability. Industry experts remain pessimistic about the future of the Jamaican sugar industry as a viable producer of raw and or refined sugar. Several factors will continue to have a negative impact on sugar production, i.e., limited loan and replanting programs, poor agronomic practices, heavy debt burdens, poor infrastructure, high levels of illicit cane fires and cattle damage.

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 2001/2002 crop. Average industry productivity declined from 56.83 to 52.28 tons cane per hectare, during the 2001/2002 crop, and is expected to remain low for the 2002/2003 crop. The apparently unrealistic productivity target of 75 tons cane per hectare is not expected to be achieved over the medium term.

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 2001/2002 crop, 37,591 hectares of land was planted with sugar cane, of which 34,226 hectares were harvested. Of the harvested acreage, farmers and estates accounted for an estimated 18,174 and 16,052 hectares, respectively. The marginal gain in acreage replanting from 9.27 to 7.9 is expected to be eroded by a decline of 2.9 percentage points during the 2002/2003 crop. Replanting costs, which vary between US\$1,313 and US\$2,013 per hectare, and poor administration of the cane replanting loan program will continue to frustrate the replanting effort.

The industry needs to replant with higher yielding varieties in order to increase productivity and lower cost. The Sugar Industry Research Institute continues to research and commercialize high yield cane varieties. Current production costs of US\$650 per MT are well in excess of the US\$471.20 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 2001/2002 crop and is expected to further deteriorate during the 2002/2003 crop. The reduced quality of the 2001/2002 crop is attributed to unfavorable weather conditions during the harvesting period and extended factory downtime.

Production Policy

Faced with very high costs, low productivity and a generally inefficient sugar industry, the GOJ and other sugar industry interests crafted a major policy direction in 1999 to bring the ailing sugar industry to globally competitive levels. The objectives of the policy addressed investment priorities, operations efficiencies and established minimum production and productivity coefficients. Now in the fourth year of implementation, the master plan has failed to deliver any of its intended objectives and has unanimously been accepted by sugar industry officials as a failed effort. Against this background, the GOJ, in a rather desperate effort to preserve the sugar industry on the premises of social and historic importance, has commissioned a further study to explore diversification option in the industry as a strategy to improve profitability. The new policy, which will be tabled in parliament during 2003/2004, is expected to include feasibility studies of co-generation and alcohol production as diversified output from the sugar industry. Productivity parameters outlined in the previous plan is expected to be retained.

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 grow proportionately with the modest projected increase in carbonated beverages and sweet pastries production. Carbonated beverage production, which utilizes most of the approximately 60,000 MT of refined sugar imported each year, is expected to increase by 2 to 3 percent per year over the next two years. The proposed amendment to the GOJ's refined sugar importation policy (see consumption 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 to 50,000 MT of refined sugar. Due to high production costs and other structural impediments, sugar-based products manufactured in Jamaica are likely to be uncompetitive in the Free Trade Area of the Americas. Hence, refined sugar imports could decline sharply after crop year 2005/2006. The domestic demand of 75,000 MT of brown sugar is expected to remain constant over next three years.

Jamaica continues to fulfill its various export quotas with domestic production while satisfy domestic demand from imports. Despite only an infinitesimal change in overall sale of raw sugar on the domestic market during 20001/2002, the quantity sold of imported raw sugar increased by 82 percent from 9,865 MT to 17,985 MT, while sales of domestic raw sugar contracted by 18 percent from 46,787 MT to 38,080 MT. With projected output of only 170,000 MT of raw sugar during 2002/2003, and the possibility that Jamaica will, for the first in three years, deliver raw sugar under the U.S. tariff rate quota. The volume sold of raw sugar on the domestic market is expected to increase significantly during 2002/2003.

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

Jamaica continues to satisfy its quota allocation, while importing both raw and refined sugar to meet domestic demand. The European Union quota remains at 127,000 MT with an additional 50,000 MT under the Special Protocol Sugar arrangement. The U.S. tariff rate quota allocation of 11,580 MT is especially prized by Jamaica's sugar industry. In some instances the Certificate of Quota Eligibility is exchanged instead of delivering sugar.

During the 2001/2002 crop, Jamaica exported 138,133 MT of raw sugar valued at US\$ 66,801,283, a decline in quantity and value from the 2000/2001 crop of 11.96 and 6.51 percent, respectively. The less than proportionate decline in total revenue was due primarily to exchange rate gains

arising from a slight appreciation of the Euro vis-à-vis the US dollar. When compared to average exchange rate for 2001, the industry gained US\$1.9 million from changes in the exchange rate. Of the 138,133 MT exported during 2001/2002, the amount of 123,339 MT of protocol sugar went to the United Kingdom at a value of US\$58,116,820. Additionally, 14,750 MT was shipped to Portugal under the Special Preferential Sugar (SPS) arrangement at a value of US\$7,209,090. For a third consecutive year, no sugar was shipped to the United States, but the Certificate of Quota Eligibility was exchanged with Commodity Credit Corporation for US\$1,447,875 .

On the import side, raw sugar imports increased by 10.18 percent, as local production fell short of domestic and export demand. During the 2001/2002 crop, 16,336 MT of raw sugar was imported by the Sugar Industry Authority, compared to 14,826 during 2000/2001. Raw sugar imports is project to increase by a further 12 percent during 2002/2003 to 18,296 MT during 2002/2003. As sugar industry continues to be characterized by sub-optimal output, raw sugar imports is expected to fluctuate between 18,000 MT and 22,000 MT in the short to medium term.

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 carbonated beverage industry. Since the deregulation of the refined sugar import policy, Jamaica imports refined sugar from over seventeen countries. The United States is the main supplier of refined sugar, accounting for approximately 42 percent of total imports during 2000/2001. Other major suppliers include Columbia (35.8%), UK (11.3%), Guatemala (7.2%), Mexico and Brazil. Total annual import of refined sugar has remained constant at 68,000 MT since 1999/2000 and is expected to show only modest growth into the medium term. 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.

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, 2002 the JCPS held 3,837 MT of raw sugar and 2,005 MT of refined sugar, down from 14,437.55 MT and 388.44 MT, respectively. With the deregulation and increasing storage costs, independent importers do not hold significant stocks of refined sugar for any extended period.

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, a high external debt burden, and the negative trade implications of the EU's Everything But Arms 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.