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**Mexico**

**Sugar**

**Annual**

**2002**

Approved by:  
William L. Brant  
U.S. Embassy Mexico  
Prepared by:  
Dulce Flores

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**Report Highlights:**

**Sugar production for MY 2002/03 is forecast at 5.3 MMT, assuming good weather conditions. Domestic consumption is expected at 4.6 MMT. Sugar exports are forecast at 850,000 MT. HFCS production and imports are expected to decrease for CY 2002.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Mexico [MX1], MX

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## SECTION I. SITUATION AND OUTLOOK

### ECONOMIC SITUATION AND OUTLOOK

The spill over of the U.S. recession into Mexico has negatively affected consumer purchasing power and trade in various sectors of the economy. Although GDP growth for 2001 fell to 0.3 percent, private economists project a real GDP growth rate of 1.5 percent for 2002. These same private analysts estimate that this year's economic performance will be slow, due to inflationary pressure. Although 2002 inflation estimates are estimated to be lower than in 2001, the Government of Mexico's (GOM) early inflation estimates of 4.5 percent are now considered by private analysts to be lower than previously expected; experts are now placing inflation at 4.8 percent, based on the expectation of higher residential electrical tariffs. The Mexican oil sector has also been affected, as revenue from oil exports has fallen as a result of low international prices. During January 2002, the Mexican oil price fell to approximately US\$14.90 per barrel, under the US\$15.50 per barrel figure upon which the GOM based its budget projections. Government spending and the trade balance has been negatively impacted by the drop in oil prices. On January 1, 2002, the Mexican Congress approved the 2002 budget, which consisted of a US\$7.5 billion tax package intended to boost government revenues and reduce dependence on revenues from oil exports.

### SUGAR PRODUCTION

Although the Mexican sugar industry has not yet set a sugar production estimate for MY 2002/03 (November-October), sugar production is forecast at 5.3 million metric tons (MMT) raw value. This forecast is based on the relatively good weather experienced during the growing season. However, it also depends on how the 27 expropriated sugar mills function under government management. Planted sugarcane area for MY 2002/03 is forecast to be similar to MY 2001/02 area. Industry financial problems and low international sugar prices do not allow for an increase in area planted. It is expected that the new National Sugar Policy (see report MX 2031) will enable the sugar industry to have access to more credit lines in order to alleviate cash flow problems, finance sugar stocks, and mechanize sugar production. The overall objective of the National Sugar Policy is to help Mexico's ailing sugar industry by regulating the sugar sector and making it a more profitable one. The National Sugar Policy announcement did not contain any information about the future of the government-owned sugar mills nor the timing of their privatization.

Virtually all sugarcane goes to the production of centrifugal sugar. The sugarcane harvest occurs between December and May. Cane yields are forecast to be almost 73 MT/Ha, due to expected good weather conditions and more efficient production techniques. Similarly, sugar yields are increasing, due to improvements in harvesting and milling techniques. Sugarcane costs of production vary according to the region, ranging from 10,000 to 12,000 pesos/ha. (US\$1,091 to \$1,310/ha.).

Sugar production for MY 2001/02 has been revised upward to 5.3 MMT. Despite FAS/Mexico's previous estimate which had forecast a decrease in production, due to expectations that general industry unrest would result in a late start and consequently lower production, MY 2001/02 production is now forecast to increase slightly, due to the fact that such expectations were unrealized and good weather conditions. Planted sugarcane area for MY 2001/02 was revised upward from previous estimates based on industry information. Mill yields and recovery rates for MY 2001/02 are

expected to be similar to the mill yield of 11.07 percent of MY 2000/01. Data for sugar production and area planted and harvested for MY 2000/01 remains unchanged.

The Mexican sugar industry had been facing excess capacity and financial problems as most mills had large debts. In fact, the expropriation of 27 sugar mills on September 3, 2001 by the Mexican government was in part to ensure continued sugar production by providing the necessary maintenance and cash flow to the failing mills. The National Sugar Policy, announced on February 26, 2002, outlined new short-term financing schemes, involving private and development banks, to relieve credit problems for MY 2001/02. However, five months into MY 2001/02, no credits have been issued for privately-owned mills and only a few have been issued for the expropriated mills. According to the industry, refined sugar production costs are on average approximately US\$500/MT and standard sugar production costs are on average US\$440/MT, when world sugar prices are half those amounts.

## **HFCS PRODUCTION**

Mexico has two plants producing high fructose corn syrup (HFCS), one in Jalisco and another in Queretaro, producing HFCS-42 and HFCS-55, respectively. Much of the corn used for HFCS production is imported from the United States under the NAFTA tariff rate quota (TRQ). In CY 2001, the wet-milling industry imported a total of 1,947,743 MT of U.S. corn under the TRQ, of which approximately 770,000 MT were destined to HFCS production. CY 2002 corn TRQ's have not yet been published by the SE. It is uncertain how these corn quotas will be allocated in CY 2002 as the 2002 budget passed by the Mexican Congress mandated a 500,000 MT decrease in over quota U.S. corn, for all purposes, including for HFCS use.

Last CY 2001, HFCS production ranged approximately from 250,000 to 350,000 MT. The CY 2002 HFCS production forecast is uncertain because of the special 20 percent tax imposed on sales of beverages containing HFCS in January 2002. Even though the GOM announced the temporary lifting of this same tax on March 5, 2002, the forecast for HFCS utilization is uncertain (see reports MX 2002 & MX2036). When this tax first went into effect in January 2002, it forced the soft drink bottling companies to switch from HFCS to sugar use in their bottling formulas in order to avoid the 20 percent tax on sales of HFCS-containing beverages. As a result, the beverage industry stopped purchasing HFCS. However, when the suspension of this tax (until September 30, 2002) was announced, HFCS sales did not resume and in fact some bottling companies even announced plans to purchase more domestic sugar. The uncertainty regarding whether there will be a market for HFCS in Mexico may not augur well for U.S. corn imports for CY 2002. The other principal users of HFCS are the bakery, food processing, and fruit and juice canning industries.

## **SUGAR AND HFCS CONSUMPTION**

Sugar consumption for MY 2002/03 is forecast to remain flat at 4.61 MMT, unless HFCS use decreases substantially, due to the above-mentioned domestic policies. The sugar industry maintains that domestic sugar consumption has remained almost flat because of increased usage of both domestic and imported alternative sweeteners. In the event that Mexico complies with the WTO ruling and lifts the HFCS compensatory duties, MY 2002/03 sugar consumption might decrease compared to MY 2001/02. Sugar consumption for MY 2001/02 has been revised upward to 4.61 MMT based on official estimates. Sources indicate that refined sugar consumption by the soft drink industry for CY 2001 was approximately 1.2 to 1.4 MMT. Sugar consumption for CY 2002 could increase about 250,000 to 300,000 MT should the industry stop using HFCS. The soft drink industry indicates that a very small growth in soda

consumption is expected for CY 2002; therefore it will have to keep its prices competitive to maintain market share. Sugar consumption for MY 2000/01 remains unchanged at 4.54 MMT.

It is difficult to forecast with any certainty what domestic HFCS consumption will be for CY 2002, but it is expected to be under the CY 2001 consumption of 600,000 MT, due to the uncertainty in the U.S./Mexico sugar/sweetener dispute and the HFCS tax. According to different sources, before the imposition (and temporary suspension of) the HFCS tax, Mexico consumed approximately 600,000 MT of HFCS annually, of which more than 50 percent was used by the soft drink industry. The remaining HFCS, about 300,000 MT, was used by the bakery, food processing, fruit and juice canning, and yogurt industries; this amount should not be affected by the controversy surrounding the tax on HFCS-containing beverages.

## SUGAR TRADE

The sugar export forecast for MY 2002/03 is approximately 850,000 MT. This forecast, however, is dependent upon final production figures, domestic and imported sweetener substitutes, and the level of duty-free access Mexico will have in the U.S. sugar market under NAFTA. It is important to note that domestic sugar prices are higher than international prices. Therefore, the sugar industry considers exports to be a double-edged sword — they are necessary to reduce storage costs, but unprofitable due to the low international prices at which they are sold.

The sugar export estimate for MY 2001/02 was revised upward to 850,000 MT based on recent information. This higher estimate includes some of the sugar that was not exported during MY 2000/01, due to some problems with mills falsely reporting exports of sugar. The MY 2001/02 sugar export estimate also takes into account the FY 2002 U.S. tariff-rate quotas on sugar exports, in which Mexico was allocated a total quota of 148,000 MT. Mexico still believes it should have complete access to the U.S. market of all of its excess sugar. How much access to the U.S. sugar market Mexico should be granted is currently under debate. The Mexican industry has been exporting excess sugar to the world market on a per mill-quota basis to prevent downturns in domestic sugar prices.

Sugar export estimates for MY 2000/01 were revised downward to 305,000 MT because some sugar mills falsely reported exports when in reality the sugar was left in the country. Some of these sugar mills were expropriated by the Mexican government in 2001.

In its National Sugar Policy announcement (see report MX 2031), the GOM outlined a series of short- and medium-term measures to restructure its ailing sugar industry. One of the short-term measures is the establishment of a sugar export cooperative association comprised of all privately-held and government-owned sugar mills. The composition of this cooperative will be 57 percent private sector and 43 percent government. This association will be the sole entity authorized to export sugar. While this cooperative association should be overseeing exports in MY 2001/02, some sources indicate that it might not be ready to assume this role until MY 2002/03.

According to industry, sugar will continue to be exported under the Mexican re-export program (PITEX). This program allows domestically-produced sugar to be sold as raw material for processing in Mexico to food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within three months and then must export the final processed product. Given this process, the GOM classifies the sugar sold under the PITEX program as exports. The underlying rationale behind the PITEX program is to allow Mexican sugar mills to fulfill their export quota while at the same time maintaining some flexibility with regard to domestic sugar supplies by

avoiding the situation which would result from selling raw sugar on the world market and then importing it back, should there be an unexpected domestic shortage. Also, sugar mills and processors avoid transportation expenses. Sources indicate that approximately 180,000 to 200,000 MT of sugar are exported under this program.

According to the industry, sugar imports for MY 2002/03 are expected to remain at zero, given the current high sugar inventories. The 2002 NAFTA tariff for imports of U.S. sugar is US\$0.3166 per kg. The import tariff for third countries is US\$0.3958 per kg. (See tariff table in Section II.)

## SUGAR PRICES

The government's annual announcement of the reference price for standard sugar that is used in the calculations to pay growers for their sugarcane is usually made at the beginning of each marketing year (i.e., November). However, due to problems in the sugar sector, this announcement was delayed until March 2002. On March 27, 2002, the Secretariat of Economia (SE) announced in the "*Diario Oficial*" (Federal Register) the wholesale reference price of a ton of standard sugar for MY 2001/2002; the reference price increased to 4,561.08 pesos/MT (US\$500.66/MT) from 4,428.24 pesos/MT (US\$466.13/MT) in MY 2000/01. The formula used in determining the reference price gives growers approximately 57 percent of the wholesale reference price of a ton of standard sugar.

## HFCS TRADE

HFCS imports for CY 2002 are forecast to be under CY 2001 imports of 292,319 MT. This forecast, however, is dependent upon whether or if HFCS sales recover from the now-suspended 20-percent tax on HFCS-containing beverages (see reports MX 2002 & MX2036) and upon the NAFTA sugar negotiations.

Since January 23, 1998, as the result of the Mexican sugar industry's antidumping case, U.S. HFCS entering Mexico must pay compensatory duties of up to US\$100.60/MT on HFCS-42 and US\$175.50/MT on HFCS-55. These compensatory duties have to be paid in addition to the 2002 normal 1.5 percent *ad-valorem* duty and apply to the following HTS Numbers: 1702.40.99; 1702.50.01; 1702.60.01; 1702.60.02; and 1702.60.99.

On November 28, 2001, the GOM published an announcement stating it would comply with the NAFTA Binational Panel's ruling of October 10, 2001. The GOM then decided to act upon one course of action given to it by the Binational Panel ruling, which was to reevaluate the information supporting its original antidumping decision. The GOM's reevaluation, however, reached the same conclusion as the previous one, that is, discriminatory pricing of U.S. HFCS imports was damaging Mexico's sugar industry. As a result, the GOM did not lift the dumping duties (see reports MX1185 & MX1186) and is now awaiting a new Binational Panel decision based on the information contained in its reevaluation of the case. Both WTO and the NAFTA Binational Panels have ruled that the duties Mexico placed on U.S. HFCS imports since 1998 are illegal under international trade rules.

Effective January 15, 2002, importers must now apply for an import permit issued by SE to import HFCS into Mexico. This requirement was incorporated into the relevant Mexican legal framework on March 1, 2002. However, between January 15, 2002 and March 1, 2002, SE did not issue permits pending the incorporation of this new import permit measure into the relevant Mexican laws. According to GOM officials, these import permits are issued automatically by SE in accordance with WTO obligations and should not take more than 10 days to be issued (see reports MX2013 &

MX2034). The government can suspend or limit the issuance of HFCS import permits, depending on what, if any, progress is made in the ongoing sugar/sweetener dispute between Mexico and the United States.

## **STOCKS**

Sugar inventories for MY 2002/03 are forecast at 773,000 MT. However, the ultimate figure will depend on the level of U.S. market access for Mexican sugar under NAFTA. Sugar inventories for MY 2001/02 were revised upward, due to a large carry-over from MY 2000/01 inventories. The industry indicates that sugar stocks are higher than needed because demand is almost flat, production has increased, and the export price is well below domestic production costs. Sugar inventories for MY 2000/01 were also revised upward because some mills did not meet their sugar export quota.

## **OTHER POLITICAL CONSIDERATIONS**

It is important to keep in mind that the imposition of the special tax on sales on HFCS-containing beverages and the temporary lifting of the same, have been controversial and generated protests from both Mexican Congressmen and the sugar industry who favored its imposition and have subsequently decried its suspension, as well as the Mexican and U.S. HFCS and corn industries which opposed both its imposition and the recalcitrance of the Mexican soft drink industry to resume HFCS purchases after the Fox administration suspended the tax. Demonstrations by sugarcane workers are expected to be led by politicians protesting the lifting of the special tax. There is the possibility that the Mexican Congress could vote to rescind President Fox's suspension of the tax during the next legislative session (March 15-April 30, 2002) if members feel that there has been unfavorable progress on the sugar/sweetener dispute between Mexico and the United States. Complicating matters is the fact that two influential members of Congress are potential candidates for the governorship of the state of Veracruz, the most important sugarcane producing state, and therefore, might seek to assuage constituent interests by using their political clout in furthering Mexico's sugar interests.

## SECTION II. STATISTICAL TABLES

## CENTRIFUGAL SUGAR TABLE

PSD Table						
Country	Mexico					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	11/2000		11/2001		11/2002	
Beginning Stocks	630	630	790	1005	0	933
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5223	5223	5092	5393	0	5305
TOTAL Sugar Production	5223	5223	5092	5393	0	5305
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
<b>TOTAL SUPPLY</b>	5853	<b>5853</b>	5882	<b>6398</b>	0	<b>6238</b>
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	520	305	530	850	0	850
TOTAL EXPORTS	520	305	530	850	0	850
Human Dom. Consumption	4543	4543	4543	4615	0	4615
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	4543	4543	4543	4615	0	4615
Ending Stocks	790	1005	809	933	0	773
<b>TOTAL DISTRIBUTION</b>	5853	<b>5853</b>	5882	<b>6398</b>	0	<b>6238</b>

## SUGARCANE FOR CENTRIFUGAL TABLE

PSD Table						
Country	Mexico					
Commodity	Sugar Cane for Centrifugal			(1000 HA)(1000 MT)		
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	11/2000		11/2001		11/2002	
Area Planted	700	700	700	700	0	700
Area Harvested	605	605	600	610	0	605
Production	44477	44477	44000	44600	0	44500
<b>TOTAL SUPPLY</b>	44477	<b>44477</b>	44000	<b>44600</b>	0	<b>44500</b>
Utilization for Sugar	44477	44477	44000	44600	0	44500
Utilizatn for Alcohol	0	0	0	0	0	0
<b>TOTAL UTILIZATION</b>	44477	<b>44477</b>	44000	<b>44600</b>	0	<b>44500</b>

## TRADE MATRICES

## SUGAR (JAN-DEC)

SUGAR SUBHEADING 1701		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	115,547	U.S.	44,461
OTHER		OTHER	
<i>UNITED KINGDOM</i>	4,845	BRAZIL	100
TOTAL OF OTHER	4,845	TOTAL OF OTHER	100
OTHERS NOT LISTED	802	OTHERS NOT LISTED	73
<b>GRAND TOTAL</b>	<b>121,194</b>	<b>GRAND TOTAL</b>	<b>44,634</b>

SOURCE: GLOBAL TRADE INFORMATION SERVICES, INC. WORLD TRADE ATLAS MEXICO EDITION, DECEMBER 2001.

NOTE: EXPRESSED VALUES FOR H.S. 1701 CONSOLIDATES THE FOLLOWING SUBHEADINGS:

1701.11.01 1701.11.02 1701.11.03 1701.11.99 1701.12.01 1701.12.99 1701.91.00 1701.91.01 1701.99.01 1701.99.02 1701.99.03 & 1701.99.99

## HFCS (JAN-DEC)

HFCS SUBHEADING 1702.40.00		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	0	U.S.	0
OTHERS NOT LISTED	155	OTHERS NOT LISTED	0
<b>GRAND TOTAL</b>	<b>155</b>	<b>GRAND TOTAL</b>	<b>0</b>

HFCS SUBHEADING 1702.40.01		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	0	U.S.	464
OTHERS NOT LISTED	0	OTHERS NOT LISTED	810
<b>GRAND TOTAL</b>	<b>0</b>	<b>GRAND TOTAL</b>	<b>1,274</b>

HFCS SUBHEADING 1702.40.99		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	0	U.S.	6,903
OTHERS NOT LISTED	0	OTHERS NOT LISTED	1,402
<b>GRAND TOTAL</b>	<b>0</b>	<b>GRAND TOTAL</b>	<b>8,305</b>

SOURCE: GLOBAL TRADE INFORMATION SERVICES, INC. WORLD TRADE ATLAS MEXICO EDITION, DECEMBER 2001.

HFCS SUBHEADING 1702.60.00		UNITS: METRIC TONS	
<b>EXPORTS FOR 2000 TO:</b>		<b>IMPORTS FOR 2000 FROM:</b>	
U.S.	1,499	U.S.	1,004
OTHERS NOT LISTED	2,038	OTHERS NOT LISTED	41
<b>GRAND TOTAL</b>	<b>3,537</b>	<b>GRAND TOTAL</b>	<b>1,045</b>

HFCS SUBHEADING 1702.60.01		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	0	U.S.	252,148
OTHERS NOT LISTED	0	OTHERS NOT LISTED	20,702
<b>GRAND TOTAL</b>	<b>0</b>	<b>GRAND TOTAL</b>	<b>272,850</b>

HFCS SUBHEADING 1702.60.99		UNITS: METRIC TONS	
<b>EXPORTS FOR 2001 TO:</b>		<b>IMPORTS FOR 2001 FROM:</b>	
U.S.	0	U.S.	2,892
OTHERS NOT LISTED	0	OTHERS NOT LISTED	600
<b>GRAND TOTAL</b>	<b>0</b>	<b>GRAND TOTAL</b>	<b>3,492</b>

SOURCE: GLOBAL TRADE INFORMATION SERVICES, INC. WORLD TRADE ATLAS MEXICO EDITION, DECEMBER 2001.

## SUGAR PRICES

SUGAR PRICES						
Units: 50 Kg. Bulk / Pesos						
Month	Standard		Change %	Refined		Change %
	2001	2002		2001	2002	
January	248.89	245.78	(1.25)	276.98	276.80	(0.06)
February	234.25	237.72	1.48	274.56	274.77	0.08
March	208.67	235.42*	12.82	266.54	269.35*	1.05
April	189.46	N/A	N/A	256.03	N/A	N/A
May	185.45	N/A	N/A	250.26	N/A	N/A
June	218.39	N/A	N/A	256.90	N/A	N/A
July	222.00	N/A	N/A	260.85	N/A	N/A
August	219.07	N/A	N/A	261.87	N/A	N/A
September	249.51	N/A	N/A	276.33	N/A	N/A
October	249.34	N/A	N/A	279.72	N/A	N/A
November	240.23	N/A	N/A	277.48	N/A	N/A
December	233.55	N/A	N/A	274.21	N/A	N/A

**SOURCE:** FIDEICOMISO PARA EL MERCADO DE AZÚCAR "FORMA" - SAGARPA

2001 AVG. EXCHANGE RATE US\$1.00 = \$9.35ESOS

MARCH 15, 2002 AVR. EXCHANGE RATE US\$1.00 = \$9.12 PESOS

\* As of March 14, 2002.

**TARIFFS**

<b>MEXICAN SUGAR IMPORT TARIFFS FOR 2001</b>		
<b>H.T.S. TARIFF # SUBHEADING</b>	<b>NAFTA TARIFFS FOR U.S. COMMODITIES DOLLARS/KG.</b>	<b>SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/KG.</b>
1701.11.01	0.3166	0.39586
1701.11.99	0.3166	0.39586
1701.12.01	0.3166	0.39586
1701.12.99	0.3166	0.39586
1701.91.01	0.3166	0.39586
1701.99.01	0.3166	0.39586
1701.99.99	0.3166	0.39586
1702.90.01	0.3166	0.39586
1806.10.01	0.3166	0.39586
2106.90.05	0.3166	0.39586

SOURCE: SECRETARY OF ECONOMY

<b>HFCS COMPENSATORY DUTIES</b>			
<b>Company</b>	<b>HFCS-42</b>	<b>HFCS-55</b>	<b>HFCS-90/95</b>
Dollars/ MT			
ADM	63.8	55.4	55.4
CARGILL	100.6	175.5	175.5
CPC	93.4	75.9	75.9
STANLEY	100.6	90.3	90.3
OTHERS	100.6	175.5	175.5

SOURCE: SECRETARY OF ECONOMY

<b>TARIFF FOR IMPORTED HFCS PRODUCTS UNDER NAFTA</b>	
<b>Year</b>	<b><i>Ad Valorem</i> %</b>
1994	13.5
1995	12.0
1996	10.5
1997	9.0
1998	7.5
1999	6.0
2000	4.5
2001	3.0
2002	1.5
2003	0.0

H.S. 1702 CONSOLIDATES THE FOLLOWING SUBHEADINGS:  
40.99, 50.01, 60.01, 60.02 & 60.99.