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Mexico

Sugar

Annual Report

2008

Approved by:
Suzanne E. Heinen
U.S. Embassy

Prepared by:
Dulce Flores

Report Highlights:
Post estimates MY 2008/09 sugar production will reach 5.9 million metric tons (MMT) raw value (RV). Sugar production estimates for MY 2007/08 were revised upward to 5.83 MMT-RV due to good weather conditions and higher mill yields. Sugar imports are forecast to be about 225,000 MT-RV for MY 2007/08 and MY 2008/09. Sugar exports for MY 2007/08 are estimated at 610,000 MT and 410,000 MT for MY 2008/09. Production and imports of HFCS are expected to continue to grow, but at a slower rate compared to previous years.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Mexico City [MX1]
[MX]

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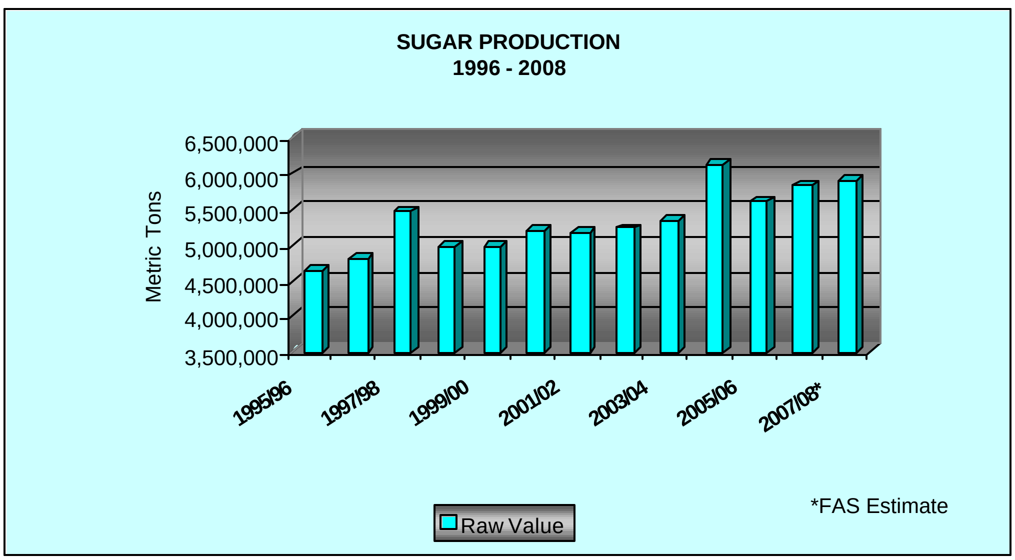
SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

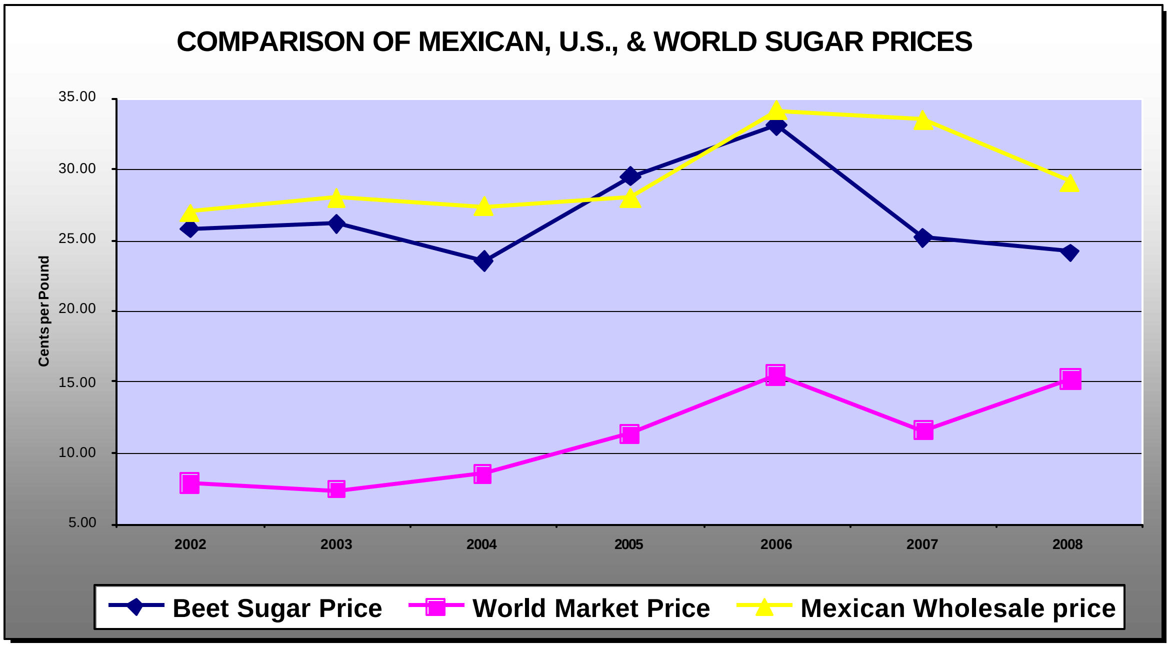
FAS/Mexico estimates Mexican sugar production for MY 2008/09 (Oct/Sep) at 5.9 million metric tons (MMT) raw value (RV) based on increasing mill yields and expected good weather conditions. Although there has not been any official forecast for sugar production for MY 2008/09 (Oct/Sep), the National Program for the Sugar Cane Agroindustry (PRONAC – by its Spanish acronym) (See MX7033) has set among its primary goals a 3.3 percent growth rate in sugar production per year. The sugar industry's commitment to follow PRONAC guidelines to achieve higher sugar production levels through the gradual restructuring of the sugar agro-industry is expected to have a positive impact on production. As always, the final production figure will ultimately depend on timely maintenance of the sugar mills, harvest conditions, and weather throughout the growing season.

The sugar production estimate for MY 2007/08 (October/September) was revised upwards from the previous estimate of 5.7 million metric tons (MMT) raw value (RV) to 5.83 MMT-RV based on higher mill yields, and good rainfall and weather conditions in major producing areas. This production increase is expected despite the many challenges the industry has been going through during the production cycle, such as the restructuring of labor contracts and the difficultly in reaching an agreement on the reference price that fixed the price of sugar cane for MY 2006/07 and 2007/08 harvests. The industry is still dealing with the payments to cane suppliers due to the retroactive increase in the reference price for MY 2006/07, and therefore some mills have gone through processing delays, however, the delays are not expected to have a significant impact on production. Production data for MY 2006/07 remains unchanged.



SUGAR PRICES

Sugar prices have been steadily decreasing since the fall of 2006, with wholesale prices dropping over 40 percent from peak values. Despite the reduction in prices, Mexican sugar remains relatively expensive compared to U.S. and world prices. January 2008 wholesale Mexican sugar prices were approximately 24.40 cents/lb for standard sugar and 29.10 cents/lb for refined sugar. As a comparison, during that same period, the U.S. beet sugar refined price was 24.13 cents/lb and the world refined sugar price was 15.17 cents/lb. The mill owners, however, are concerned that prices remain too low given the high fixed cane prices they must pay combined with potential competition allowed by the new free market conditions that Mexico faces with the opening of NAFTA. Despite domestic prices above U.S. and international prices, the industry has proposed an export pact to absorb excess sugar in the market and further increase domestic sugar prices.



Source: U.S. Beet Sugar Price: Milling and Baking News; World Refined Sugar Price: New York Board of Trade; Mexican Wholesale Refined Price: SNIIM-Ministry of Economy

SUGARCANE PRODUCTION

Virtually all sugarcane goes to the production of centrifugal sugar. The sugarcane harvest normally occurs between November and May. On average, sugar yields have been increasing due to improvements in harvesting and milling techniques and coordination and assistance between mill owners and producers.

Planted sugarcane area for MY 2008/09 is forecast to be close to 668,000 hectares (ha), with some in the industry projecting more if implementation of the PRONAC's measures to improve yields proves successful. There are also provisions within the PRONAC to encourage the production of ethanol from sugar cane, particularly for the export market, however, due to domestic market conditions of cane prices, this process is still not profitable and should not be expected in the short-term. The first plants that will produce ethanol for commercial use will do so from grains, mainly corn.

Area planted and harvested for MY 2007/08 and MY 2006/07 was revised slightly downward from previous estimates based on industry information. On average, the yield of sugar per metric ton of cane in Mexico is 125 Kg. of sugar. Sugarcane costs of production vary according to the region, ranging from 10,000 to 22,000 pesos/ha. (US$909 to $2,000/ha).

There are currently 58 sugar mills spread across 15 of Mexico's 32 states. The state of Veracruz has the heaviest concentration of mills with 22, accounting for more then one-third of the total. The next highest concentration is in the state of Jalisco with 6 mills. Overall, there are 11 private sugar groups with more than one mill, the government group with 13 mills, and 8 mills that are not in a group but work independently. The government has announced that shortly the 13 mills will be ready for sale. However, contrary to the mill ownership structure, ownership of the land cultivated with sugarcane in Mexico is largely by small individual growers or through communal ownership called “ejidos”. Sugarcane farmers total over 164,000 and “ejidos” farms are usually between 3 to 5 hectares in size. Historically mill companies have not owned land. While revisions in the Agrarian Law in 1992 allowed for some accumulation of land holdings, the current production structure remains dominated by the ejido system. Growers are organized within two major unions, the CNC (National Sugarcane Growers) and CNPR (National Union of Sugarcane Growers) representing over 95 percent of all cane growers. All growers have a contract to deliver their cane to the mills, and they receive technical support and agrochemicals to grow their cane from the mills.

SUGARCANE PRICES

According to current regulations, approximately 57 percent of a set reference price of standard sugar is paid to growers for their sugarcane. This general formula for determining grower sugarcane prices had been in place since 1993, and although revoked along with the old Sugar Law, it was reenacted within the Sugar Law published in August 2005 (See policy section).

The initial reference price of standard sugar for MY 2006/07 was raised to $5,996.13 pesos/MT (US$545.10/MT) from a price of $5,759 pesos/MT (US$514.20/MT) that was agreed upon for MY 2005/06. However, in December 2007, after a month of negotiations, the federal government published a new agreement to determine the reference price of standard sugar in which to calculate the price of sugar cane for MY 2006/07 and 2007/08 harvests. The reference price of standard sugar for MY 2006/07 was revised up to $6,356.45 pesos per MT (US$579.96 per MT), as the government considered domestic and international sugar price variations that occurred during the marketing year and required the mills to pay retroactively. For MY 2007/08, the federal government determined that the reference price of standard sugar would be $5,996.13 pesos per MT (US$ 547.09 per MT).

The December agreement on prices for MY 2006/07 was a political compromise that continues to create tension within the sector, as sugar cane producers were requesting an 8.24 percent increase in price while the sugar mill industry was only offering a 3.25 percent. The mill industry has not been happy with this last agreement and the federal courts have issued court injunctions (amparos) to some mill groups allowing them not to pay the 6 percent increase adjustment per ton of cane for MY 2006/07 as decreed by the Secretariat of Economy. The sugar mills claim there is a cash liquidity problem due to a drop in domestic prices and a fall in sales that have made it difficult to meet weekly payments to suppliers. The outcome of this is still uncertain and the Sugarcane Committee, recently established according to the Sugar Law, will certainly have to address this and other issues pertaining to the establishment of the sugar cane price.

HFCS PRODUCTION

High fructose corn syrup (HFCS) production for MY 2007/08 is forecast to be between 415,000 to 450,000 MT dry basis. Currently, the industry indicates they are close to or at their limit of production capacity. However, production could be somewhat limited as continued rising corn prices, as well as, current relatively low sugar prices may dampen demand. This trend could also limit interest in the near term of investment in additional production capacity that would be needed to increase domestic production. HFCS production for MY 2006/07 is estimated at between 400,000 to 420,000 MT dry basis.

The Mexican HFCS industry produces HFCS with domestic and imported U.S. yellow corn. According to IDAQUIM, the industry group representing the HFCS producers, this industry consumes about 2.5 million tons of yellow corn of which 2.0 million MT are imported. The United States will remain the main supplier of corn to Mexico for the foreseeable future. Since trade has been fully liberalized under NAFTA as of January 2008, there are no TRQ's for corn anymore, and this grain can be imported by the industry at any time. On the other hand, the GOM has continued to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns; however, sources indicate that Mexican farmers continue planting white corn due to resistance to change from a traditional crop, lower yields of yellow corn compared to white, and difficult access to seed.

SUGAR AND HFCS CONSUMPTION

FAS-Mexico forecasts MY 2008/09 sugar for domestic human consumption at 5.2 MMT-RV. The sugar industry claims that sugar consumption is not increasing much due to limited demand and the higher usage of HFCS that has displaced sugar, particularly in the soft drink industry. The estimates for sugar for domestic human consumption for MY 2006/07 and MY 2007/08 were revised downward from previous estimates despite industry estimates that the soft drink industry sugar consumption estimate for MY 2007/08 is higher at 1.8 MMT than the 1.6 or 1.7 MMT estimate from MY 2006/07. The overall decline is in part based on higher HFCS usage, but also on a drop in sales from mills that is not easily explained. However, it should be noted that there is no complete source for sugar consumption in Mexico and estimates from different sources can vary substantially, including many industry sources that believe that sugar consumption is higher than reported values. However, if consumption is higher than estimated, either stocks are lower than estimated or additional sugar is entering the market but not accounted for in official statistics. Current low Mexican sugar prices strongly suggest that sufficiently high stocks are present in Mexico.

HFCS consumption for MY 2007/08 is forecast to be between 700,000 and 750,000 MT dry basis, compared to estimated consumption of about 675,000 to 720,000 for MY 2006/07. However increasing prices of imported HFCS and imported corn could limit the growing demand for this product. HFCS demand from the soda-drink bottlers was expected to increase as tariff and TRQ restrictions were completely removed in January 2008, but the growth will also depend on domestic costs of production, in particular corn prices, as well as, the price of imported HFCS, and movements in domestic prices for sugar.

SUGAR TRADE

With the liberalization of sugar trade within NAFTA in January 2008, all sugar tariffs between the United States and Mexico have been eliminated. However, sugar trade will continue to be impacted by the various sugar policies implemented in both countries that shape production and trade among third parties.

Mexican sugar exports are forecast for MY 2008/09 at 410,000 MT-RV. This estimate will be dependent not only on the final production figure in Mexico, but also on the extent of substitution of sugar for alternative domestic and imported sweeteners as discussed above.

Sugar exports for MY 2007/08 are estimated at 610,000 MT. The sugar industry and the sugar-end users have differing perceptions on the sugar export estimate based also on perceptions of stocks. However, they agree that for this marketing year inventories are relatively high and have caused domestic prices to drop. Although some suggest that the industry could export 1,000,000 MT-RV, others believe that stocks are not as high and less sugar is available to be exported. Currently, Mexican mills agreed among themselves to export about 750,000 MT of sugar to the U.S. in this marketing year in part to help cover additional U.S. demand created by the Imperial Sugar Refinery Explosion in that country, but also to help them achieve an increase in domestic prices. However, this number may be difficult to achieve given that in general domestic prices still remain above U.S. prices.

Sugar export estimates for MY 2006/07 were revised downward, as Mexico did not use all 250,000 MT of duty free access that was negotiated in July 2006 under the NAFTA. Although there were high inventories, it seems that exports were limited by higher domestic prices relative to international export markets.

Sugar use under the "other disappearance" category which is mainly the Mexican re-export program, now called IMMEX [1], is forecast at 375,000 MT-RV for MY 2008/09, based on industry information. The IMMEX program allows sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar either from the Mexican sugar mills at international prices adjusted for import and transportation costs, or, if allowed, through imports. These food manufacturers must then process the sugar within 18 months of the date of purchase and must export the final processed product. Although this report does not consider these products when calculating sugar exports, the GOM does classify the sugar sold under the IMMEX program as exports. Therefore, it is difficult to have an accurate figure for sugar under this program. According to the sugar industry, the estimates of sugar used for MY 2006/07 and 2007/08 were revised upward from previous estimates due to higher-than-expected demand from the industry users.

Sugar import[2] estimates are forecast for MY 2008/09 at 225,000 MT-RV, mainly to cover specific needs from the IMMEX industry. Imported sugar is mainly used for the *maquila* and IMMEX industries which in turn will export it as part of other industrialized products. Sugar import estimates for MY 2007/08 were also revised upward from previous estimates to 225,000 MT-RV again primarily for use in the IMMEX industry. Sugar import estimates for MY 2006/07 were revised upward, mainly as a result of an additional import quota issued by the government to cover IMMEX industries demand during the period of Sep/Dec 2006.

HFCS TRADE

Some sectors in the Mexican industry had concerns that the lifting of all restrictions for HFCS imports into Mexico after January 1, 2008 would result in very high imports of this product, in turn limiting sugar production. However, lower domestic sugar prices and higher international corn prices that continue to create relatively higher HFCS prices have limited demand. The HFCS industry believes that consumption wil continue to increase although at a slower pace than expected. Therefore, HFCS imports for MY 2007/08 are expected to grow to about 330,000 MT dry basis. Imported HFCS for MY 2006/07, particularly under HTS category 1702.60, increased from 237,532 MT dry basis in MY 2005/06 to 275,738 MT. Imports under HTS category 1702.40 on the other hand, had a slight decrease, from 41,325 MT to 29,262 MT for MY 2006/07. Since January 1, 2008, all trade restriction under NAFTA for HFCS have been removed.

STOCKS

Sugar stocks for MY 2008/09 are forecast at 1.78 MMT-RV, which would maintain an adequate level of strategic reserves given monthly consumption trends. Stocks for MY

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[1] Decree for the Development of the Manufacturing, Maquila and Export Services Industry. The program was formally known as PITEX

[2] *Most of the refined sugar imported into Mexico has been classified by customs into the HTS 1701.99 category, corresponding to " other pure sucrose". It has also been confirmed that U.S. sugar exports for Mexico were classified under the same category.*

2007/08 are now forecast at 1.64 MMT-RV, slightly below the previous year, but more than is desired by many in the industry that would like to increase exports in an effort to further reduce stocks and, in turn, increase prices. Stocks for MY 2006/07 were revised upward to 1.7 MMT based on lower than expected exports during the marketing year.

POLICY

The Mexican government and sugar industry continue to face challenges pertaining to their domestic and international sugar policies. Challenges include; possible amendments and implementation of the Sugar Law that is still waiting modifications from the Congress; the implementation of the new National Sugar Program – PRONAC; the privatization of 13 sugar mills; and policies toward ethanol production.

The National Program for the Sugar Cane Agroindustry (PRONAC – by its Spanish acronym) announced on April 24, 2007, has already begun activities under the leadership of SAGARPA along with the participation of the sugar organizations and other Ministries involved in the sugar production chain. There are several working groups that are meeting on various topics such as the setting of production goals, field and crop issues, mill improvements and ownership, and marketing strategies.

The Sugar Law called for the creation of a Technical Committee (National Committee for Sustainable Sugarcane Development) for the Sugar Agroindustry which held its first meeting on March 13, 2008. Participants of the Committee are sugar cane producers, sugar mill owners, workers organizations, and the Federal government. This Committee will coordinate all activities pertaining to the Sugar Law, including trade and sugarcane price setting. In the first session of the Committee it was agreed to pursue four main strategies of the PRONAC to help improve competitiveness within the sector: strengthen trade policy, improve cane production, improve mill yields, and promote investment and employment.

The government is also expected to continue to manage the return of the last 13 of Mexico's 27 government-owned sugar mills back to private ownership, since the Mexican Supreme Court declared that the entire expropriation of the nation's sugar mills by the government in 2001 was unconstitutional, and ordered the Secretariat of Agriculture (SAGARPA) to return the mills to their original owners.

Ethanol – The Congress also passed the Biofuels Law, April 26, 2007, and modifications in October 2007, that contains a comprehensive biofuel policy that promotes ethanol production from different agricultural commodities. However, according to the sugar mill industry, ethanol production from sugar cane in Mexico is still not feasible or profitable due to the high price of cane, the need for the vast majority of production to be used for centrifugal sugar, and the lack of a domestic ethanol market. The cost of production per ton of cane is still high compared to countries like Brazil where sugar cane is sold between $15 and $18 dollars, whereas in Mexico cane is about $37 to $40 dollars per ton. There are, however, provisions within the Sugar Law and PRONAC that contain overall goals focused on the possibility of producing ethanol. Thus far, necessary government policies have not been implemented.
As indicated earlier, investments in ethanol in Mexico have primarily focused on corn based production, such as the production plant in Sinaloa that is nearing completion.

SECTION II. STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

Mexico									
Sugar, Centrifugal							(1000 MT)		
	2007 Revised			2008 Estimate			2009 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Beginning Stocks	1294	1294	1294	1656	1537	1718	0	0	1643
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	5633	5633	5633	5830	5700	5830	0	0	5900
Total Sugar Production	5633	5633	5633	5830	5700	5830	0	0	5900
Raw Imports	25	25	19	4	4	25	0	0	25
Refined Imp.(Raw Val)	439	410	454	196	196	200	0	0	200
Total Imports	464	435	473	200	200	225	0	0	225
Total Supply	7391	7362	7400	7686	7437	7773	0	0	7768
Raw Exports	10	20	53	10	90	150	0	0	20
Refined Exp.(Raw Val)	125	170	107	430	390	460	0	0	390
Total Exports	135	190	160	440	480	610	0	0	410
Human Dom. Consumption	5210	5300	5130	5150	5300	5150	0	0	5200
Other Disappearance	390	335	392	370	345	370	0	0	375
Total Use	5600	5635	5522	5520	5645	5520	0	0	5575
Ending Stocks	1656	1537	1718	1726	1312	1643	0	0	1783
Total Distribution	7391	7362	7400	7686	7437	7773	0	0	7768

SUGAR CANE FOR CENTRIFUGAL

Mexico									
Sugar Cane for Centrifugal						(1000 HA) (1000 MT)			
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Planted	674	674	674	675	680	677	0	0	680
Area Harvested	668	668	664	660	670	666	0	0	668
Production	49026	49026	49026	47600	50000	50000	0	0	51000
Total Supply	49026	49026	49026	47600	50000	50000	0	0	51000
Utilization for Sugar	49026	49026	49026	47600	50000	50000	0	0	51000
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	49026	49026	49026	47600	50000	50000	0	0	51000

SUGAR PRICES

AVERAGE SUGAR PRICES UNITS: 50 KG. BULK / PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2007	2008		2007	2008	
January	361.40	276.20	(23.57)	412.55	323.53	(21.57)
February	344.95	260.16	(24.58)	403.50	313.24	(22.36)
March	347.12	260.97	(24.81)	400.24	309.41	(22.69)
April	341.00	N/A	N/A	398.81	N/A	N/A
May	332.30	N/A	N/A	389.94	N/A	N/A
June	323.00	N/A	N/A	384.16	N/A	N/A
July	321.00	N/A	N/A	383.13	N/A	N/A
August	306.50	N/A	N/A	380.84	N/A	N/A
September	288.12	N/A	N/A	366.40	N/A	N/A
October	280.40	N/A	N/A	351.73	N/A	N/A
November	272.12	N/A	N/A	331.99	N/A	N/A
December	292.00	N/A	N/A	333.16	N/A	N/A
CIF Mexico City						

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA
http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?
2007 Avg. Exchange Rate US$1.00=$ 10.95 pesos
2008 Avg. Exchange Rate March 27, 2008 US$1.00=$10.69 pesos