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Sugar

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Report Highlights:

The sugar production forecast for MY 2008/09 (October/September) was revised slightly downward to 5.85 million tons raw value. The sugar production estimate for MY 2007/08 was revised upwards based on official data. Sugar imports forecast for MY 2008/09 remain unchanged from previous estimates, and import estimates for MY 2007/08 were revised downward to 210,000 MT-RV as the IMMEX industry sourced more domestic sugar instead. The sugar export forecast for MY 2008/09 was revised upward due to available sugar in stocks and the access to the U.S. market. However, the sugar export estimate for MY 2007/08 was revised downward due to a lower rate of exports than expected. Production of HFCS is not expected to increase substantially in MY 2008/09 over MY 2007/08 levels. However, imports of HFCS are expected to grow slightly for MY 2008/09 over MY 2007/08 levels.

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

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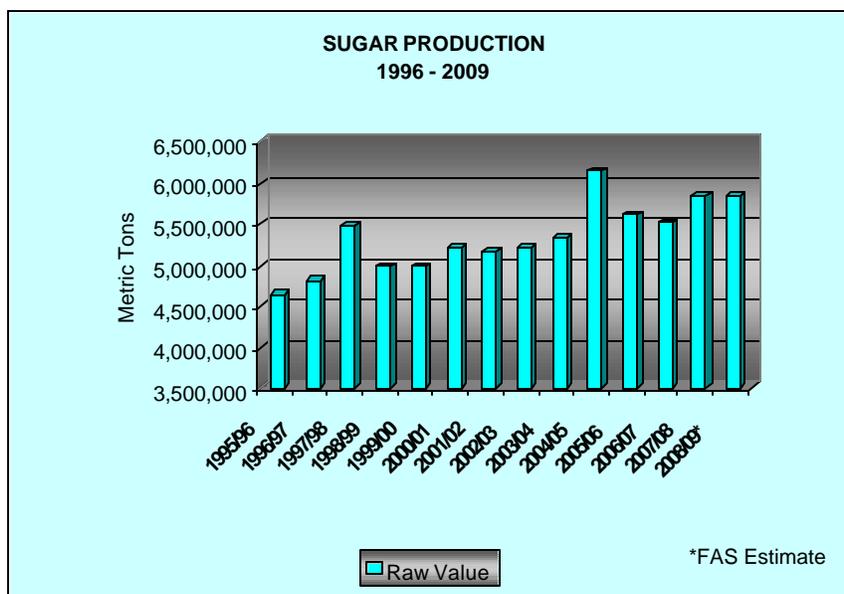
SECTION I. SITUATION AND OUTLOOK

Sugar Production

The Mexican sugar production forecast for MY 2008/09 (Oct/Sep) was revised slightly downward from previous estimates, but still represents a historically good production figure due to favorable weather conditions. However, the Mexican sugar industry is still evaluating the crop progress, which could lead to higher sugar production estimates compared to MY 2007/08 levels given recent increased rainfall in major producing areas. The sugar industry’s commitment to follow PRONAC¹ 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 based on official data indicating higher mill yields of 11.43 percent, and good rainfall and weather conditions in major producing areas. Currently, the industry is still dealing with issues surrounding the final payments to cane suppliers, as the December 2007 Federal Agreement on prices for sugar cane created tension among the sector. Therefore, in the New Agreement for the Modernization of the Sugar Cane Industry announced in July 3, 2008, the Federal Government promised supports of \$1,600 million pesos (US\$152,380,952) to the mill industry to help them meet cane payments for the MY 2007/08 harvest (See Policy Section).

Production for MY 2006/07 remains unchanged.



Estimated planted and harvested sugarcane areas for MY 2008/09 remain unchanged from previous estimates. There are also provisions within the PRONAC to encourage the

¹ National Program for the Sugar Cane Agroindustry (PRONAC – by its Spanish acronym) ([See MX7033](#))

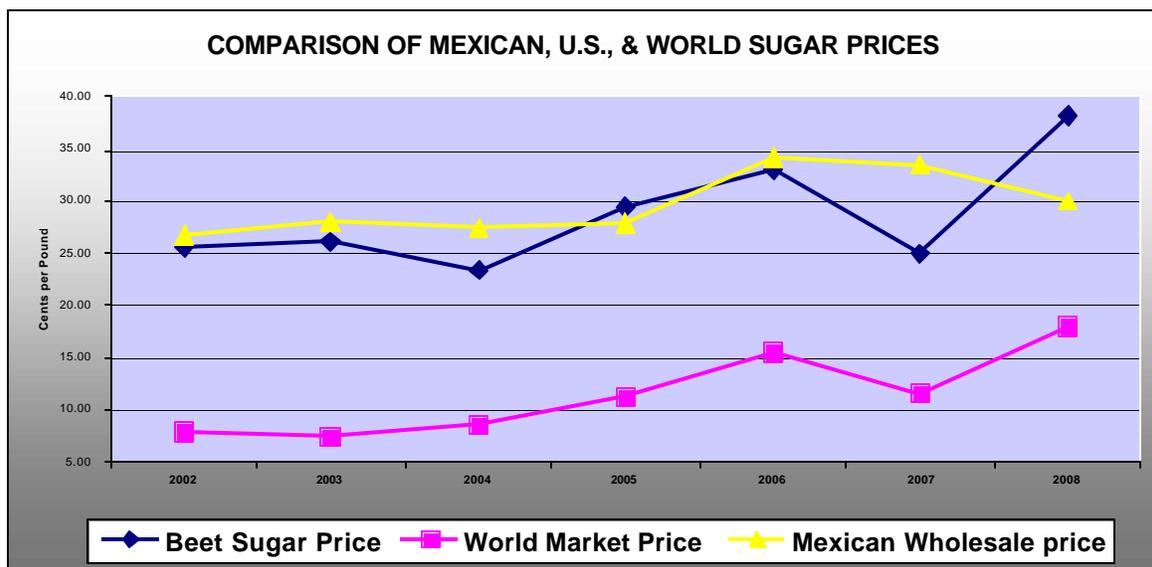
production of ethanol from sugar cane, particularly for the export market; however, due to domestic market conditions of cane prices, this process is still not profitable. The first plants that will produce ethanol for commercial use will do so from grains, mainly corn.

Area planted and harvested for MY 2007/08 was revised slightly upward 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).

Sugar and Sugarcane Prices

According to current regulations, approximately 57 percent of a set reference price of standard sugar is paid to growers for their sugarcane. 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). Additionally, the Federal Government announced, under the New Agreement for the Modernization of the Sugarcane Industry, an agreement to determine the reference price for sugar to establish the cane prices for MY 2008/09 and 2009/10 harvests. It was determined that MY 2008/09 harvest prepayments would use the reference price of sugar of \$5,500 pesos/MT (US\$523.80/MT). The definite price for the year will be determined later taking into consideration other factors such as sugar supply/demand balance and sugar export values.

Sugar prices continued to decrease in 2008 and mills have kept selling at low prices due to need for cash to meet obligations, mainly to pay sugar cane growers. The August 2008 wholesale Mexican sugar prices were approximately 25.10 cents/lb for standard sugar and 30.11 cents/lb for refined sugar. As a comparison, during that same period, the U.S. beet sugar refined price was 38.40 cents/lb and the world refined sugar price was 18.05 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.



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

HFCS Production

The Mexican high fructose corn syrup (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 difficulty in accessing quality seed.

High fructose corn syrup (HFCS) production for MY 2008/09 is forecast to be similar to that of MY 2007/08 or about 400,000 to 415,000 MT dry basis, as rising corn prices due in part to the diversion of corn supplies for ethanol production in the U.S. could limit interest in investment in additional production capacity that would be needed to increase domestic production. Currently, the industry indicates they are close to or at their limit of production capacity.

Sugar and HFCS Consumption

Sugar for domestic human consumption for MY 2007/08 and 2008/09 were revised upward from previous estimates, based on industry information. The sugar industry claims, however, that sugar consumption growth has been almost flat due to a slow down in the consumer purchasing power and that HFCS usage has displaced sugar, despite the fact that soda-drink bottlers are using more sugar instead of HFCS due to price. 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. According to different sources, the soft drink industry sugar consumption estimate for MY 2007/08 is between 1.7 and 1.8 MMT.

Consumption for MY 2008/09 is expected to be slightly higher compared to MY 2007/08 consumption, at between 800,000 and 820,000 MT dry basis. However increasing prices of imported HFCS and imported corn could limit the growing demand for this product. In fact, some soda-drink bottling companies are using less HFCS to take advantage of lower current domestic sugar prices. The HFCS consumption estimate for MY 2007/08 is expected to increase about 12 percent to about 800,000 MT dry basis compared to MY 2006/07 consumption due to demand from the bottling and other industries and the capability of importing without quotas.

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.

The Mexican sugar export forecast for MY 2008/09 was revised upward from previous estimates due to available sugar in stocks and the access to the U.S. market. 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.

Mexican sugar export estimates for MY 2007/08 were revised downwards as the industry could not export at the rate they had estimated despite the increased access to the U.S.

market, as some mills could not meet their export commitments. Exports are somewhat limited to a degree by higher domestic prices relative to international export markets. The sugar industry and the sugar-end users have differing perceptions on the sugar export estimate based also on perceptions of stocks. However, they agreed that for this marketing year inventories were relatively high and have caused domestic prices to drop. The sugar export estimate for MY 2006/07 remains unchanged

Sugar use under the “other disappearance” category which is mainly the Mexican re-export program, now called IMMEX², was revised upward for MY 2007/08 and MY 2008/09, due to higher-than-expected demand from the industry users. 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 6 months of the date of purchase (See Report [MX8030](#)), 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.

The sugar import³ forecast for MY 2008/09 remains unchanged from previous estimates. 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 revised downward from previous estimates as the IMMEX industry sourced some more domestic sugar instead. Sugar import estimates for MY 2006/07 remain unchanged.

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 somewhat slowed demand. HFCS imports increased from about 299,000 MT dry basis in MY 2006/07 to about 400,000 MT dry basis for MY 2007/08, and it is expected that MY 2008/09 imports will be between 400,000 to 420,000 MT dry basis. Mexico exports little amounts of HFCS.

Stocks

Sugar stocks for MY 2008/09 were revised downward from previous estimates, due to higher sugar consumption and exports, but still maintain an adequate level of strategic reserves given monthly consumption trends. However, this stock level could change depending on the Mexican import/export strategy, as well as, final sugar production levels. Stocks for MY 2007/08 were also revised downward, still reflecting levels of sugar that could have been exported. Stocks for MY 2006/07 remained unchanged.

Policy

² Decree for the Development of the Manufacturing, Maquila and Export Services Industry. The program was formally known as PITEX

³ *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.*

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 continued implementation of the National Sugar Program – PRONAC; the privatization of 13 sugar mills; and policies toward ethanol production.

There are several working groups under PRONAC that are meeting on various topics such as the setting of production goals, field and crop issues, mill improvements and ownership, and marketing strategies. This program is pursuing four main strategies to help improve competitiveness within the sector: strengthen trade policy, improve cane production, improve mill yields, and promote investment and employment.

In addition, an Agreement for the Modernization of the Sugar Agroindustry was announced in July 2008, under the PRONAC, to address several issues including the following:

- The establishing of a uniform contract that would allow timely payments for sugarcane by using a formula that defined the price of sugarcane for payments of MY 2006/07 and 2007/08.
- A new reference price to pay sugarcane will be set in accordance with data from a new market information system that will be managed by the Secretariat of Economy (SE) and that will be applied to the MY 2010/2011 harvest.
- Since the mill industry was not in agreement with the government's announcement of the reference price for standard sugar and the price to be paid for sugar cane that was published on December 12, 2007, and since the SE recognized that that reference price was higher than real domestic prices; it was agreed that for MY 2007/08 payments the mills would pay the cane as stipulated but with a federal government support of about \$1,600 million pesos (approximately \$150 million). This amount will be equally divided between programs headed by the Mexican SE and SAGARPA. The program headed by Economia, funded by Mexico's federal treasury, will make payments to mills based on production. The program headed by SAGARPA and funded by Mexico's sugar producing states, will make payments to sugarcane producers in accordance with a "commercial program" tailor-made for each mill to be proposed by the Mexican Sugar Chamber, which represents the mills.

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 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

Sugar, Centrifugal Mexico	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Beginning Stocks	1,294	1,294	1,294	1,718	1,718	1,718	1,643	1,643	1,560
Beet Sugar Production	0	0		0	0	0	0	0	0
Cane Sugar Production	5,633	5,633	5,633	5,950	5,830	5,852	5,850	5,900	5,850
Total Sugar Production	5,633	5,633	5,633	5,950	5,830	5,852	5,850	5,900	5,850
Raw Imports	19	19	19	25	25	25	25	25	25
Refined Imp.(Raw Val)	454	454	454	200	200	185	200	200	200
Total Imports	473	473	473	225	225	210	225	225	225
Total Supply	7,400	7,400	7,400	7,893	7,773	7,780	7,718	7,768	7,635
Raw Exports	53	53	53	150	150	178	20	20	100
Refined Exp.(Raw Val)	107	107	107	380	460	322	480	390	400
Total Exports	160	160	160	530	610	500	500	410	500
Human Dom. Consumption	5,130	5,130	5,130	5,350	5,150	5,300	5,430	5,200	5,350
Other Disappearance	392	392	392	370	370	420	375	375	380
Total Use	5,522	5,522	5,522	5,720	5,520	5,720	5,805	5,575	5,730
Ending Stocks	1,718	1,718	1,718	1,643	1,643	1,560	1,413	1,783	1,405
Total Distribution	7,400	7,400	7,400	7,893	7,773	7,780	7,718	7,768	7,635

Sugar Cane For Centrifugal

Sugar Cane for Centrifugal Mexico	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Nov 2006			Market Year Begin: Nov 2007			Market Year Begin: Nov 2008		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Planted	674	674	674	675	677	683	0	680	680
Area Harvested	668	664	664	660	666	668	0	668	668
Production	49,026	49,026	49,026	47,600	50,000	48,305	0	51,000	49,000
Total Supply	49,026	49,026	49,026	47,600	50,000	48,305	0	51,000	49,000
Utilization for Sugar	49,026	49,026	49,026	47,600	50,000	48,305	0	51,000	49,000
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	49,026	49,026	49,026	47,600	50,000	48,305	0	51,000	49,000

Trade Matrixes

SUGAR		H.S. 1701	Units: Metric Tons	
EXPORTS FOR MY 2006/07 (Oct-Sept) TO:		IMPORTS FOR MY 2006/07 (Oct-Sept) FROM:		
U.S.		191,248	U.S.	299,331
OTHER			OTHER	
PUERTO RICO (U.S.)		4,658	COLOMBIA	63,770
TOTAL OF OTHER		40	TOTAL OF OTHER	84,239
OTHERS NOT LISTED		40	OTHERS NOT LISTED	84,239
Grand total		195,946	Grand total	447,340

SUGAR		H.S. 1701	Units: Metric Tons	
EXPORTS FOR MY 2007/08* (Oct-Sept) TO:		IMPORTS FOR MY 2007/08* (Oct-Sept) FROM:		
U.S.		338,676	U.S.	157,612
OTHER			OTHER	
DOMINICAN REPUBLIC		41,000	CANADA	11,590
TOTAL OF OTHER		26,095	TOTAL OF OTHER	3,527
OTHERS NOT LISTED		26,095	OTHERS NOT LISTED	3,527
Grand total		405,771	Grand total	172,729

* As of June 2008

Source: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2008.

Note: Expressed values for H.S. 1701 consolidate the following subheadings
 1701.11.00 1701.11.01 1701.11.02 1701.11.03 1701.11.99 1701.12.01 1701.12.99
 1701.12.02 1701.12.03 1701.91.00 1701.91.01 1701.99.01 1701.99.02 1701.99.03 &
 1701.99.99

HFCS		H.S. 1702.40	Units: Metric Tons	
EXPORTS FOR MY 2007/08* (Oct-Sept)		IMPORTS FOR MY 2007/08* (Oct-Sept)		
U.S.		85	U.S.	48,076
OTHER			OTHER	
Germany		546	Canada	9,611
TOTAL OF OTHER		84	TOTAL OF OTHER	6
OTHERS NOT LISTED		84	OTHERS NOT LISTED	6
Grand total		715	Grand total	57,693

* As of June 2008

Note: Expressed values for H.S. 1702.40 consolidate the following subheadings:
 1702.40.00, 1702.40.01 & 1702.40.99.

HFCS		H.S. 1702.60		Units: Metric Tons	
EXPORTS FOR MY 2007/08* (Oct-Sept)			IMPORTS FOR MY 2007/08* (Oct-Sept)		
U.S.	3,768	U.S.	345,837		
OTHER		OTHER			
Germany	949	Canada	2,966		
TOTAL OF OTHER	1,849	TOTAL OF OTHER	0		
OTHERS NOT LISTED	1,849	OTHERS NOT LISTED	0		
Grand total	6,566	Grand total	348,803		

* As of June 2008

Note: Expressed values for H.S. 1702.60 consolidates the following subheadings: 1702.60.00, 1702.60.01, 1702.60.02 & 1702.60.99

Source: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2008.

Sugar Prices

Average Sugar Prices						
Units: 50 Kg. Bulk/Pesos						
MONTH	STANDARD			REFINED		
	2007	2008	Change %	2007	2008	Change %
January	361.40	276.20	(23.57)	412.55	323.53	(21.57)
FEBRUARY	344.95	260.17	(24.58)	403.50	313.25	(22.36)
MARCH	347.12	260.98	(24.81)	400.24	309.42	(22.69)
APRIL	341.00	273.50	(19.79)	398.81	325.00	(18.50)
MAY	332.30	255.13	(23.22)	389.94	316.33	(18.87)
JUNE	323.00	248.88	(22.94)	384.16	307.83	(19.86)
JULY	321.00	267.20	(16.76)	383.13	322.67	(15.78)
AUGUST	306.50	261.67	(14.62)	380.84	329.17	(13.56)
SEPTEMBER	288.12	254.50*	(11.66)	366.40	323.33*	(11.75)
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 September 11, 2008 US\$1.00=\$10.58 pesos

* As of 2th Week of September 2008