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Sugar

Annual Report

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Report Highlights:

The official sugar production forecast for MY 2005/06 has not been set, but Post estimates it will reach at least 5.6 million metric tons (MMT). Although MY 2004/05 sugar production has been revised slightly downward from previous estimates to 5.66 MMT raw value, it is still greater than that of MY 2003/04, due to good maintenance and government investment in their sugar mills. Sugar imports for MY 2005/06 are forecast to remain the same at 140,000 MT and to come in under a TRQ. Human domestic sugar consumption for MY 2005/06 is forecast to remain high, due to continued demand from the soft drink industry.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

The Mexican sugar industry has not yet set a sugar production estimate for MY 2005/06 (October/September), however, Fas/Mexico estimates it will be at least 5.6 million metric tons (MMT) raw value. This forecast is based on the relatively good weather experienced during the growing season. However, production will also depend on timely maintenance of the sugar mills, and the availability of credit and incentives.

There is still some uncertainty in the sugar sector, due to the Mexican government's overall sugar policy and unresolved issues pertaining to the expropriation of the sugar mills. The most recent development was the January 14, 2005, announcement by the Secretariat of Agriculture (SAGARPA) revoking the decree (*Decreto Cañero*) defining the legal framework which regulates, among other things, relations between sugar mill owners and sugarcane producers, and the system of payment for sugarcane (see MX5005 and Policy Section)

Three years after the expropriation of 27 sugar mills (in September 2001), the federal government is ready to auction off the first four sugar mills: San Francisco–El Naranjal and Industrial Azucarera San Pedro in the state of Veracruz; La Joya in the state of Campeche; and Santa Rosalia Chontalpa in the state of Tabasco. Even though the Government planned to reprivatize all 27 mills in the first 18 months after expropriation, the filing of court injunctions (*amparos*) and other legal issues brought up by the former mill owners have delayed the reprivatization process. In February 2004 the Government lost *amparos* on 4 sugar mills, which were then subsequently returned to their previous owners. The court cases of the other 19 mills are still in the process of resolution.

Although MY 2004/05 sugar production has been revised slightly downward from previous estimates to 5.66 MMT raw value, it is still greater than that of MY 2003/04, due to good maintenance and government investment in their sugar mills. However, the chocolate manufacturers and the soft drink industries are more conservative and forecast MY 2004/05 sugar production at 5.3 MMT. Mill yields for MY 2004/2005 are expected to be slightly higher than those of MY 2003/04 yields of 11.05 percent. Sugar production for MY 2003/04 remains unchanged.

Planted sugarcane area for MY 2005/06 is forecast to remain the same as in MY 2004/05, although this may change depending on what sort of policy and incentive measures are put into the new sugar agroindustry law. Virtually all sugarcane goes to the production of centrifugal sugar. The sugarcane harvest occurs between December and May. Sugar yields continue to be good, due to improvements in harvesting and milling techniques and coordination and assistance between mill owners and producers. Sugarcane costs of production vary according to the region, ranging from 10,000 to 12,000 pesos/ha. (US\$900 to \$1,080/ha.). Area planted for MY 2004/05 remains unchanged from previous estimates. However cane production was revised upward to 48.4 MMT, due to good weather conditions and efficient production techniques. Area planted and harvested as well as cane production for MY 2003/04 remains unchanged.

High fructose corn syrup (HFCS) production for CY 2005 is again forecast to be between 130,000 to 140,000 MT dry basis, due to the continued imposition of the 20-percent tax on HFCS-containing beverages and based on the assumption that no resolution will be reached in the U.S.-Mexico sweetener dispute. Mexican HFCS production for CY 2004 is estimated to be between 130,000 and 140,000 MT dry basis. Those companies manufacturing HFCS in Mexico have indicated that the tax has harmed industry investment and at least one company has sought legal redress in the Mexican courts. U.S. corn imports for the starch industry, used in the local manufacture of HFCS, have also been adversely affected by the

HFCS beverage tax. Mexican production of HFCS is not published by official sources and companies treat it as confidential information. At the end of 2004, representatives of the Chamber for the Sugar and Alcohol Industries, as well as sugar producers and congressmen rejected any changes related to removing the 20-percent tax on the use of fructose in beverages, and, as a result, it remains in effect.

SUGAR AND HFCS CONSUMPTION

Sugar for human domestic consumption for MY 2005/06 is forecast at 5.5 MMT raw value. This forecast is based on the assumption that the bottling industry will continue using mostly sugar, due to the 20-percent tax on HFCS-containing beverages. Sugar for human domestic consumption for MY 2004/05 was revised upward to 5.4 MMT raw value, due to population growth and increased usage of sugar over HFCS by the soft drink industry because of the 20-percent tax. The soft drink industry estimates its MY 2004/05 sugar consumption at about 1.6 MMT (Note: Although there are no official numbers on sugar consumption by the soft drink industry, industry contacts have given rough estimates to FAS/Mexico over the years about projected consumption. According to these estimates, sugar consumption for the soft drink industry had gone from approximately 1.0 to 1.4 MMT before the imposition of the 20-percent tax, to approximately 1.6 to 1.8 MMT after the imposition). The soft drink industry and the chocolate manufacturers maintained that sugar supplies would be tight for the last three months of 2004. Tight supplies also seem to be the reason why the Mexican government authorized a sugar tariff rate quota so as to ensure adequate supplies for the month of December 2004 (see Trade Section). Sugar for human domestic consumption for MY 2003/04 was revised upward to include sugar imported under *amparos*. About 75,000 MT of sugar raw value imported under *amparos* ended up in the domestic market.

According to the industry, HFCS consumption for CY 2005 is forecast to be between 130,000 to 140,000 MT dry basis, as only the bakery, food processing, fruit and juice canning, and yogurt industries continue to use fructose. HFCS consumption for CY 2004 is also estimated at 130,000 to 140,000 MT. The soft drink industry had been the largest HFCS user in Mexico prior to the imposition of the 20-percent HFCS beverage tax in January 2002. According to industry information, total domestic HFCS consumption for CY 2001 was about 600,000 MT – an indication of what the level of HFCS consumption in Mexico would be if the 20-percent duty on HFCS-containing beverages were lifted.

SUGAR TRADE

Sugar exports for MY 2005/06 are forecast at 12,000 MT. This estimate however, will be dependent on final sugar production figures, the outcome, if any, of U.S.-Mexico sweetener negotiations, and substitution by alternative domestic and imported sweeteners. The MY 2004/05 sugar export estimate remains unchanged from previous estimates. The MY 2003/04 estimate was revised downward based on official data. Both of these estimates include Mexico's WTO sugar quota to the U.S.

Sugar use under the "other disappearance" category which is mainly the Mexican re-export program (PITEX) is forecast at about 230,000 MT raw value for MY 2005/06. The PITEX program allows sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar from the Mexican sugar mills at about the world price. The food manufacturers must process the sugar within six months of the date of purchase 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. This also enables the industry to avoid the situation that 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.

The estimate for MY 2004/05 sugar use under the “other disappearance” category was revised upward to 225,000 MT raw value, due to more demand from the PITECH industry. According to the industry, all the sugar imported under the December 2004 TRQ was destined for this purpose. The estimate for MY 2003/04 sugar use under the “other disappearance” category was also revised upward based on official information.

Total sugar imports for MY 2005/06 are forecast at 141,000 MT raw value, assuming some sugar will be imported under a TRQ as in previous years. It is also expected that most of the imported sugar will be used for the *maquila* and PITECH industries. Sugar imports will also depend on the final sugar production volume and beginning stocks. Total sugar imports for MY 2004/05 were sharply revised upward from previous estimates, to 141,000 MT raw value to reflect imports under a tariff rate quota (TRQ). On November 12, 2004, the Secretariat of Economy (SE) announced a TRQ for 100,000 MT that could be imported from all countries, plus an additional TRQ of 23,457 MT from Costa Rica, totaling 123,457 MT. According to the announcement, the objective of this measure, was to ensure that there would be enough strategic reserves to meet domestic demand, for the balance of 2004 (November 12 – December 31, 2004) and to deter price speculation (see report MX4128). Standard sugar prices dropped marginally from November 2004 to February 2005, and refined sugar prices remained almost stable for the same period of time. According to the sugar industry, sugar imports under the TRQ were about 93,000 MT until December 2004. Some additional sugar is expected to be imported during the rest of MY 2004/05 for *maquila* purposes.

Total sugar imports for MY 2003/04 were revised upward to 327,000 MT raw value based on industry information. These imports include about 79,000 MT of sugar raw value, imported under the official sugar TRQ that Mexico announced on September 27, 2003, with the remaining comprised of sugar imported under *amparos* and destined for the *maquila* and PITECH industries. Officials from the Sugar and Alcohol Industries indicated they had to work very hard to stop the courts from issuing *amparos* by explaining the damage these imports were causing to the domestic sugar industry. The Sugar Chamber indicated that they were fairly successful as sugar imports resulting from *amparos* seem not to have been repeated for MY 2004/05.

Note: 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.

HFCS TRADE

Due to the continued imposition of the 20-percent duty on HFCS-containing soft drinks and beverages, CY 2005 HFCS imports are forecast to remain at approximately 11,600 MT. Since there has been no resolution of the U.S.-Mexico sweetener dispute, the Secretariat of Economy will not establish an HFCS quota nor specify how the import permit system will function. An outcome is expected soon on the current WTO case the U.S. has brought against Mexico's 20-percent duty on HFCS-containing beverages, but it is not expected to have an immediate impact on U.S.-Mexico sweetener trade. U.S. HFCS imports have decreased 97 percent since the imposition of the HFCS tax in January 2002 (HTS categories 1702.40 and 1702.60).

POLICY

On January 14, 2005, the Secretariat of Agriculture (SAGARPA) announced in the *Diario Oficial* (Federal Register) a decree (*Decreto Cañero*) revoking the regulation defining the legal framework which governs, among other things, relations between sugar mill owners and sugarcane producers. This decree had been in force since May 31, 1991, and was modified on July 27, 1993. The announcement calls for SAGARPA to convene all the pertinent parties of the sugar agroindustry in order to establish a National Sugarcane Committee, as mandated by the Law of Rural Sustainable Development. The newly formed national committee will have to propose a new decree by September 30, 2005. In the interim, the rules and regulations under the 1991 decree will still apply. The Executive Branch considers revocation of this decree, and the establishment of a new one, necessary in order to increase productivity and to offer better benefits to the sugar cane producers and sugar mill workers (see MX5005).

However, the Executive Branch is opposed in its efforts by sugarcane growers and workers and sugar mill workers, who, allied with members of Congress, bear a skeptical view of the Executive Branch's revocation of the decree and the establishment of a new one. Contrary to Executive Branch claims, they see the change as geared towards taking away such hard-fought benefits as better working conditions and assurances of good sugarcane prices. To this end, state governors and members of Congress have legally challenged the Executive Branch's action with the aim of making the revocation of the decree ineffective. This group has proposed its own draft law for the sugarcane agroindustry. One important aspect of this proposal is to preserve the declaration of "public interest" of the sugar sector, which would ensure the right of the government to set sugar production policy. According to congressional and industry sources, the proposed bill also seeks to maintain a sugarcane reference price that will favor the growers. The group is currently seeking input from different stakeholders about what additional measures to include in the draft legislation. The initiative has already passed the Lower Chamber and now needs Senate approval. Once the Senate has passed it, it then goes for approval to the President, who has the power to veto it.

Additionally, two sugarcane associations filed for an *amparo* to halt the Executive Branch's decision of January 14, 2005 to cancel the sugar decree. On February 21, a judge issued an *amparo* and a provisional suspension of the government's decree of January 14. This means that the original Sugar Decree of 1993 will continue to be valid, although a definitive decision from the judge is still pending. In the meantime, the effect of this judge's decision will be negligible as the Executive Branch had already announced that the 1993 Sugar Decree would be in effect until a new one was written and approved. Since the Executive Branch has until September 2005 to establish a new sugar decree, the actual effects of this *amparo* will not hit until then.

STOCKS

Stocks for MY 2005/06 are forecast to be enough to ensure strategic reserves, a level approximating three months of consumption. Sugar stock levels for MY 2004/05 were revised upward due to sugar imports under the TRQ to prevent sugar shortages by the end of 2004 and to ensure strategic reserves. MY 2003/04 sugar stocks were revised slightly downward reflecting an increase in sugar consumption.

SECTION II. STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

Mexico						
Sugar, Centrifugal			(1000 MT)			
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2003		10/2004		10/2005	
Beginning Stocks	1194	1194	1249	1237	0	1384
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5330	5330	5690	5665	0	5623
TOTAL Sugar Production	5330	5330	5690	5665	0	5623
Raw Imports	40	41	1	1	0	1
Refined Imp(Raw Val)	259	286	20	140	0	140
TOTAL Imports	299	327	21	141	0	141
TOTAL SUPPLY	6823	6851	6960	7043	0	7148
Raw Exports	48	7	9	9	0	9
Refined Exp.(Raw Val)	3	7	3	3	0	3
TOTAL EXPORTS	51	14	12	12	0	12
Human Dom. Consumption	5305	5380	5376	5422	0	5517
Other Disappearance	218	220	218	225	0	230
Total Disappearance	5523	5600	5594	5647	0	5747
Ending Stocks	1249	1237	1354	1384	0	1389
TOTAL DISTRIBUTION	6823	6851	6960	7043	0	7148

SUGAR CANE FOR CENTRIFUGAL TABLE

Mexico						
Sugar Cane for Centrifugal			(1000 HA) (1000 MT)			
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	11/2003		11/2004		11/2005	
Area Planted	640	640	640	640	0	640
Area Harvested	609	609	610	610	0	610
Production	45456	45456	45500	48400	0	48000
TOTAL SUPPLY	45456	45456	45500	48400	0	48000
Utilization for Sugar	45456	45456	45500	48400	0	48000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	45456	45456	45500	48400	0	48000

SUGAR PRICES

AVERAGE SUGAR PRICES UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2003	2004		2003	2004	
JANUARY	257.75	309.70	20.16	303.75	345.00	13.58
FEBRUARY	254.25	296.25	16.52	304.25	340.00	11.75
MARCH	254.00	291.25	14.67	304.0	340.00	11.84
APRIL	261.40	298.25	14.10	307.20	340.00	10.68
MAY	266.90	297.25	11.37	310.00	340.00	9.68
JUNE	273.25	302.95	10.87	310.50	345.00	11.11
JULY	279.20	317.90	13.86	330.00	345.00	4.55
AUGUST	279.10	324.40	16.23	335.00	339.00	1.19
SEPTEMBER	294.90	332.10	12.61	363.00	340.00	(6.34)
OCTOBER	302.40	329.90	9.09	360.00	339.00	(5.83)
NOVEMBER	303.75	324.60	6.86	365.00	335.00	(8.22)
DECEMBER	319.10	324.00	1.54	360.00	340.00	(5.56)

2003 Avg. Exchange Rate US\$1.00=\$10.79 pesos

2004 Avg. Exchange Rate US\$1.00=\$11.29 pesos

AVERAGE SUGAR PRICES UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2004	2005		2004	2005	
JANUARY	309.65	320.70	3.51	352.50	340.00	(3.54)
FEBRUARY	296.25	312.00	5.31	340.00	339.50	(0.14)
MARCH	291.25	306.00	5.06	337.20	335.60	(0.47)
APRIL	298.25	N/A	N/A	340.00	N/A	N/A
MAY	297.25	N/A	N/A	337.50	N/A	N/A
JUNE	302.95	N/A	N/A	340.60	N/A	N/A
JULY	317.85	N/A	N/A	345.00	N/A	N/A
AUGUST	326.20	N/A	N/A	337.40	N/A	N/A
SEPTEMBER	331.00	N/A	N/A	339.50	N/A	N/A
OCTOBER	329.60	N/A	N/A	339.25	N/A	N/A
NOVEMBER	326.05	N/A	N/A	338.20	N/A	N/A
DECEMBER	329.85	N/A	N/A	341.00	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA

http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?

2004 Avg. Exchange Rate US\$1.00=\$11.29 pesos

2005 Avg. Exchange Rate March 30, 2005 US\$1.00=\$11.29 pesos

* As of March, 2005

TRADE MATRIXES

SUGAR		H.S. 1701	UNITS: METRIC TONS
EXPORTS FOR MY 2003/04 (OCT-SEPT) TO:		IMPORTS FOR MY 2003/04 (OCT-SEPT) FROM:	
U.S.	9,735	U.S.	125,175
OTHER		OTHER	
UNITED KINGDOM	4,391	GUATEMALA	84,417
		BRAZIL	78,498
TOTAL OF OTHER	14,126	TOTAL OF OTHER	288,090
OTHERS NOT LISTED	27	OTHERS NOT LISTED	26,145
Grand total	14,153	Grand total	314,235

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, Oct 2004.

NOTE: EXPRESSED VALUES FOR H.S. 1701 CONSOLIDATES THE FOLLOWING SUBHEADINGS:
1701.11, 1701.12, and 1701.99

HFCS		H.S. 1702.40	UNITS: METRIC TONS
EXPORTS FOR CY 2004* TO:		IMPORTS FOR CY 2004* FROM:	
U.S.	17,029	U.S.	1,867
OTHER		OTHER	
GUATEMALA	44	CHINA	132
TOTAL OF OTHER	44	TOTAL OF OTHER	132
OTHERS NOT LISTED	41	OTHERS NOT LISTED	28
Grand total	17,114	Grand total	2,027

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, Oct 2004.

* As of Oct 2004

HFCS		H.S. 1702.60	UNITS: METRIC TONS
EXPORTS FOR CY 2004* TO:		IMPORTS FOR CY 2004* FROM:	
U.S.	866	U.S.	4,251
OTHER		OTHER	
GERMANY	470	CANADA	5,319
TOTAL OF OTHER	470	TOTAL OF OTHER	0
OTHERS NOT LISTED	353	OTHERS NOT LISTED	0
GRAND TOTAL	1,689	GRAND TOTAL	9,570

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, Oct 2004.

* As of Oct 2004

SUGAR TARIFFS

MEXICAN SUGAR IMPORT TARIFFS FOR 2005		
H.T.S. TARIFF # SUBHEADING	NAFTA TARIFFS FOR U.S. COMMODITIES DOLLARS/KG ①	SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/KG
1701.11.01	0.31668	0.338
1701.11.02	0.31668	0.338
1701.11.03	0.31668	0.338
1701.12.01	0.31668	0.36
1701.12.02	0.31668	0.36
1701.12.03	0.31668	0.36
1701.91.01	0.31668	0.36
1701.99.01	0.31668	0.36
1701.99.02	0.31668	0.36
1701.99.99	0.31668	0.36
1806.10.01	0.31668	0.36
2106.90.05	0.31668	0.36

Source: Secretariat of Economy

① Note: The sugar importer must have a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program. If the importer has this statement, then the sugar will be subject to duty on the second column. Otherwise, the product will be subject to the tariff in column three. The Specific Tariff for third countries in column three, was modified to comply with WTO regulations and announced in the *Diario Oficial* on July 20, 2004. However, on March 2, 2005 SE published new specific tariffs for third countries for the following HTS products: 1701.11.01, 1701.11.02, and 1701.11.03 (see MX5023).