Required Report: Required - Public Distribution **Date:** September 29, 2021

Report Number: MX2021-0057

Report Name: Sugar Semi-annual

Country: Mexico

Post: Mexico City

Report Category: Sugar

Prepared By: Ariel Osoyo

Approved By: Rhiannon Elms

Report Highlights:

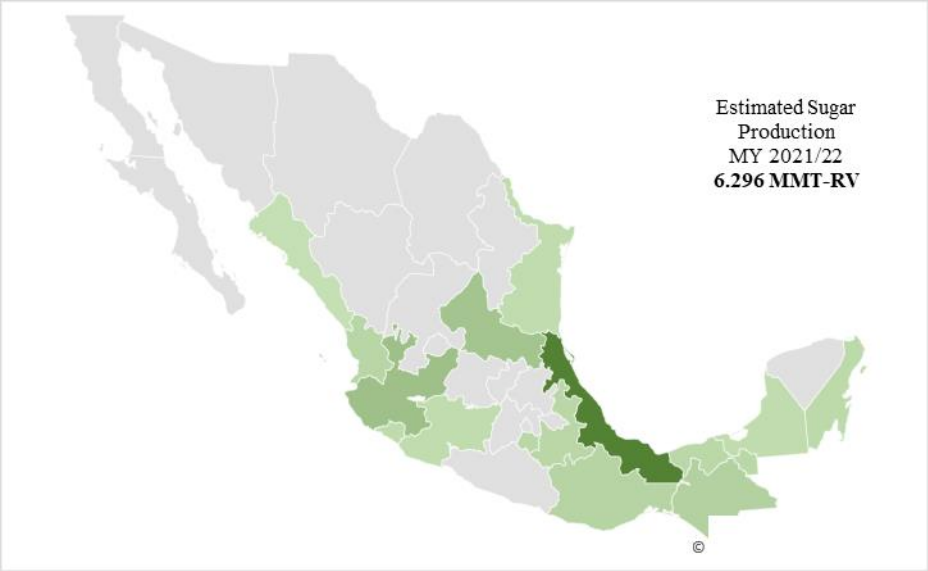
Sugar production in Mexico for marketing year 2021/22 is forecast to rebound from last year's drought affected season, after ample rain and optimal growing conditions have been observed in much of the country's cane producing states. Participation in the Manufacturing, Maquila and Export Services Industries Program (IMMEX) program is expected to remain strong, while reducing exports to markets other than the United States to ensure high returns for sugar mills and exporters.

PRODUCTION

Post forecasts MY 2021/22 (October-September) sugar production at 6.29 million metric tons-raw value (MMT-RV), four percent higher than previous estimates, as plentiful rain has alleviated much of the lingering drought effects experienced in the previous two growing seasons. Planted area is forecasted at 823,000 hectares, a slight two percent increase from the previous year mainly due to ideal growing conditions. Harvested area is forecasted at 791,000 hectares, and national yields at 68 tons of cane per hectare. Veracruz, Jalisco, San Luis Potosí, and Chiapas are the leading sugarcane producing states, and account for 73 percent of total sugar production.

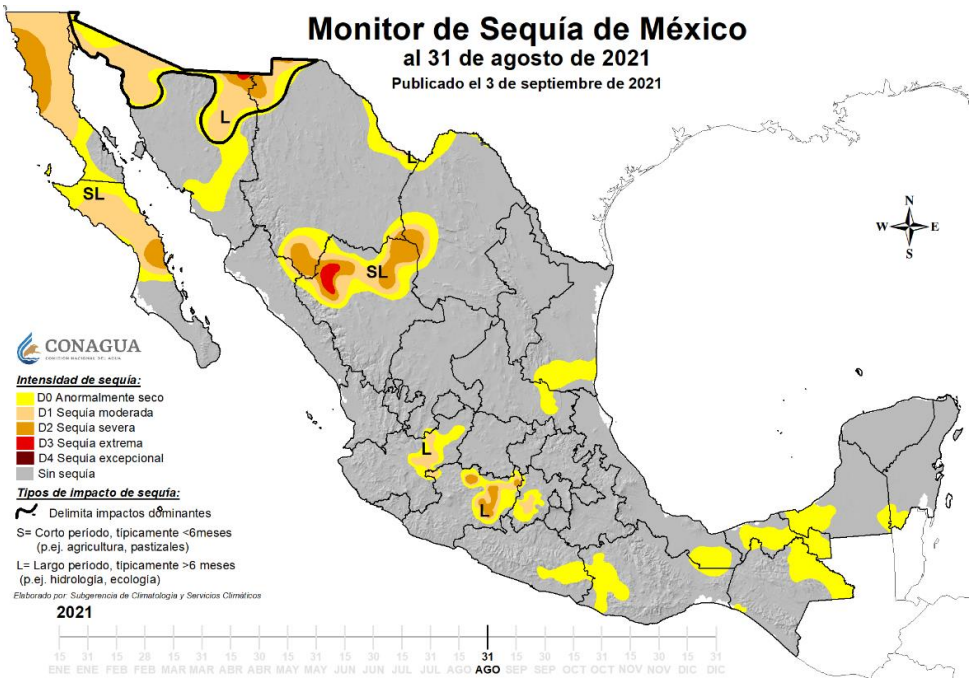
Sugarcane production in Mexico is stable due to its high profitability and ease of production. Producers are highly organized in unions, and domestic policies - such as the guaranteed reference price- provide stability and additional profitability to the sector. The reference price is negotiated every year and is based on production and export volumes as well as domestic and international prices. As a result, prices for Mexico's sugar are among the highest in the world.

Table 1. Sugar Producing States



Seasonal rains, which began in mid-May, have been plentiful and favorable for crop development. Although some areas are experiencing moderate drought, the affect to sugar cane is expected to be minimal. The National Water Commission (CONAGUA) announced that from January 1 to August 31 record rainfall levels were registered, seven percent higher than the national historical average for this period.

Table 2. Drought Monitor



As shown in Tables 2 and 3, coastal sugarcane states of Veracruz, Jalisco, Oaxaca, and Michoacán, as well as the southern states of Chiapas, Quintana Roo, and Tabasco have benefited from seasonal rains, and strong cane growth and yields for MY 2021/22 are expected.

Table 3. Precipitation Map September 12-18

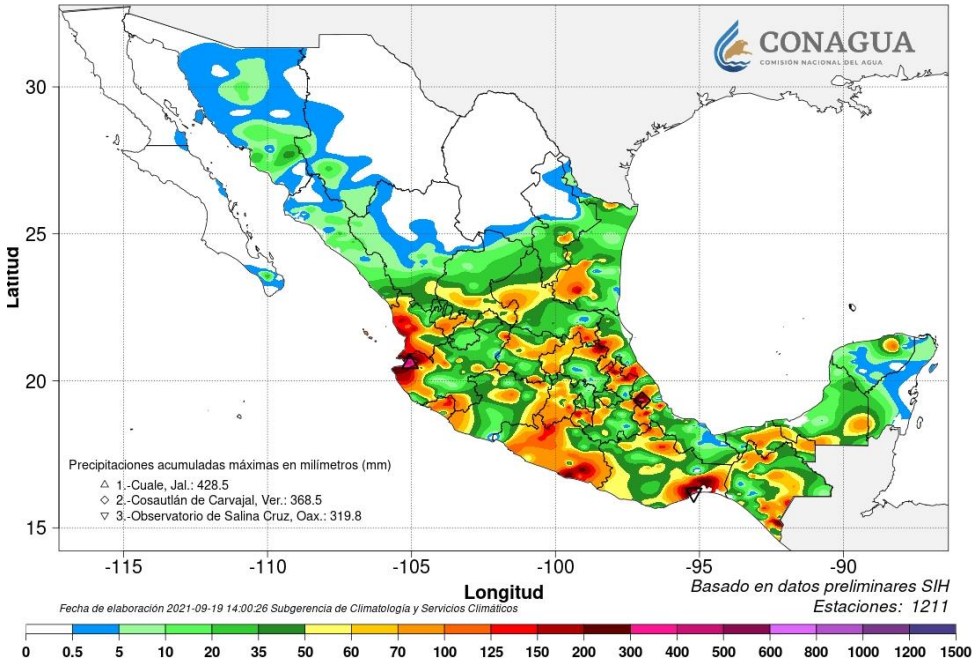
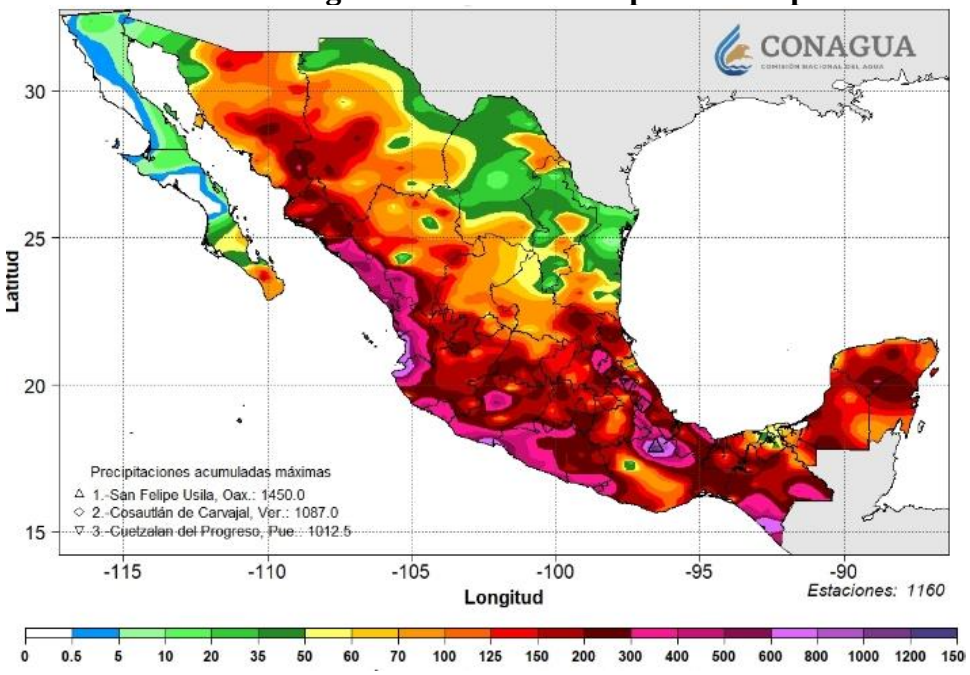


Table 4: August Cumulative Precipitation Map



On September 2, the Committee for the Sustainable Development of the Sugar Cane Industry (CONADESUCA) released the final MY 2020/21 production report with final production at 6.05 MMT-RV. Harvested area reached 789,996 hectares, with 51.29 MMT-RV of harvested cane. Production increases were observed in Veracruz (+13.5 percent), San Luis Potosi (+107 percent), and Quintana Roo (+129 percent). Increases were due to higher humidity, better crop development and minimal milling stoppages during harvest. According to industry sources, Mexico produced 26,000 MT of organic sugar in MY 2020/21, mainly in Puebla, Sinaloa, and Veracruz. Much of this sugar was produced for export.

Table 5. Final Production

Concept	MY 2019/20 Final	MY 2020/21 Final	Change
Industrialized area (ha)	783,486	789,996	0.8%
Harvested cane (t)	49,274,468	51,292,545	4.1%
Field yield (t/ha)	62.89	64.93	3.2%
Sugar production (t)	5,278,320	5,715,448	8.3%
Factory yield (%)	10.71	11.14	4.0%

Source: CONADESUCA

Table 6. Final Production by Type

	MY 2019/20 Final (MT-RV)	MY 2020/21 Final (MT-RV)	Change
Refined	1,339,678	1,429,163	6.7%
Standard	3,286,566	3,615,065	10.0%
Special white	207,770	193,684	-6.8%
Mascabado	3,502	38,028	985.9%
Raw r < 99.2	757,504	782,435	3.3%
Total	**5,595,020**	**6,058,374**	**8.3%**

Source: CONADESUCA

Table 7. Final Production by State MY 2020/21

State	Area harvested (ha)	Cane Harvested (mt)	Field yield (mt/ha)	Sugar production (mt)	Factory yield (%)
Veracruz	326,706	19,971,413	61.13	2,130,528	10.67
Jalisco	76,714	6,476,498	84.42	733,175	11.32
San Luis Potosí	102,595	5,313,820	51.79	643,605	12.11
Chiapas	31,715	2,954,831	93.17	338,480	11.46
Oaxaca	48,629	2,819,076	57.97	297,972	10.57
Others	203,636	13,756,907	67.56	1,571,687	11.42
Total	**789,996**	**51,292,545**	**64.93**	**5,715,448**	**11.14**

October 1 through Jul 31, 2021

Source: CONADESUCA

TRADE

The MY 2021/22 Post export forecast is 1.45 MMT-RV, 18 percent higher than the previous MY on increased production, although final exports levels will depend heavily on U.S. sugar needs as determined throughout the marketing year. Under terms of the U.S. - Mexico Sugar Suspension Agreements and according to the September World Agriculture Supply and Demand Estimates (WASDE) report, the export quota for MY 2021/22 is 688,308 MT-RV, but it could increase during the MY depending on U.S. needs.

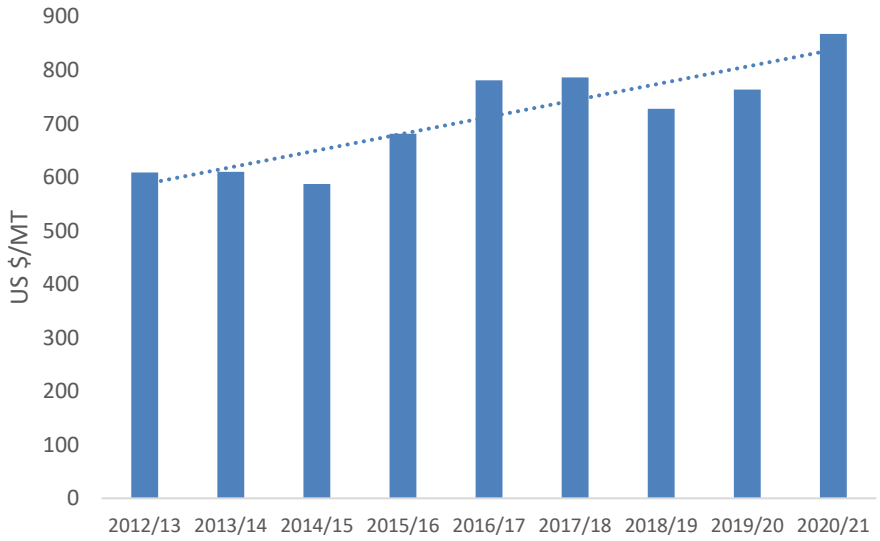
Since 2014, sugar trade between the United States and Mexico is managed under the U.S. - Mexico Sugar Suspension Agreements. The agreements suspended antidumping (AD) and countervailing duty (CVD) investigations of imports of sugar from Mexico and are reviewed and renewed as determined by

the U.S. Department of Commerce every five years. The CVD agreement contains provisions to prevent an oversupply of sugar in the U.S. market, with export limits (or quotas) calculated on U.S. sugar needs as determined by the United States Department of Agriculture and published in the WASDE. Mexico's export limit is set at 100 percent of U.S. needs after accounting for U.S. production and imports from tariff rate quota countries (per World Trade Organization commitments). The A.D. agreement establishes reference prices for all types of sugar exported by Mexico.

The Post export estimate for MY 2020/21 is 1.23 MMT-RV, six percent lower than previous forecasts, on lower-than-expected exports to the world market and increased usage of IMMEX. As of September 12, Mexico has exported 850,038 MT-RV to the United States (223,731 MT-RV refined and 626,307 MT-RV low polarization) and 332,052 MT-RV to other markets.

The Post forecast for MY 2021/22 sugar imports is 30,000 MT-RV, 12 percent lower than the previous MY on higher production. Mexico typically produces enough sugar to cover domestic needs and imports only small amounts of specialty sugars not produced in-country.

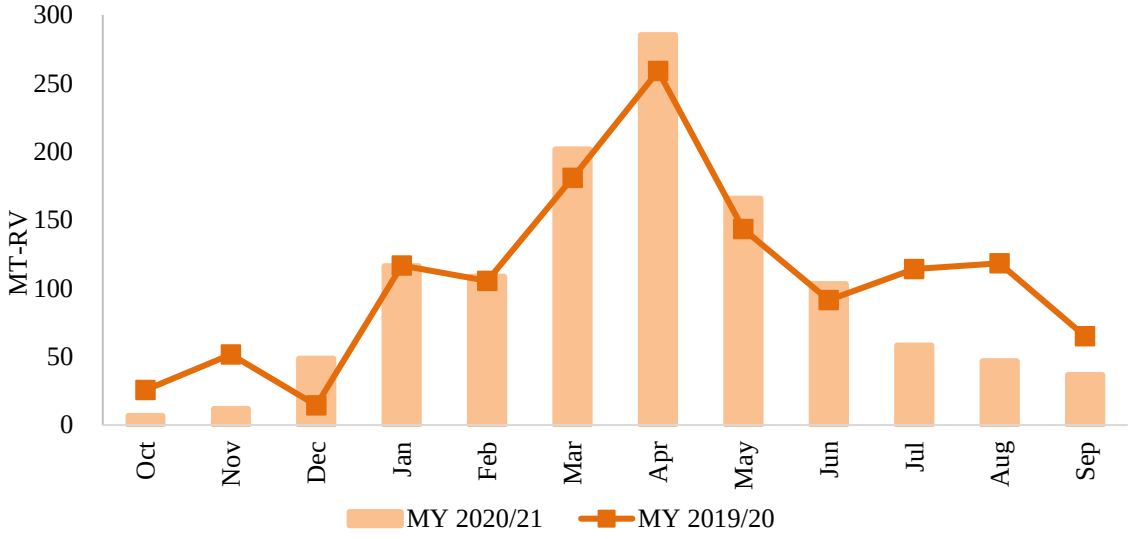
Table 8. Domestic Standard Sugar Prices



Mexico applies a tariff of US $365 to all sugar imports from markets other than the United States, a disincentive to importation and the resulting inflation of domestic prices. This has also led to a disincentive to export to the world market, as profitability margins are highly skewed. Mills prefer to sell sugar to companies that participate in the Manufacturing, Maquiladora and Export Services Industry (IMMEX) program. The IMMEX program is a federal program that allows multiple industries to use imported inputs for manufacturing of another product for export. In the case of sugar, participants are allowed to both import and utilize domestically produced supplies (which accounts for most use). The IMMEX program also provides tax incentives for companies that purchase domestic sugar, such as VAT

exemptions and a reduction in customs processing fees. Companies operating under the IMMEX program are required to export the final product within six months. Generally, IMMEX prices are more profitable than export prices to both the U.S. and the world, but lower than domestic prices. Domestic standard sugar prices have increased by 30 percent in the last eight years.

Table 9. Mexican Sugar Exports
MY 2020/21 versus MY 2019/20



Through September 12, 2021

High Fructose Corn Syrup (HFCS)

The Post forecast for MY 2021/22 HFCS imports is 790,000 MT dry basis, down slightly from the previous report. Steady declines in the last two years are mainly due to reformulation of products containing sugar and HFCS and substitution by non-caloric sweeteners. Companies indicate this reformulation has been ongoing for several years due to consumer preferences for lower-calorie or sugar-free products. Mexican companies that produce and import HFCS are Ingredion, Almidones Mexicanos, and Cargill México.

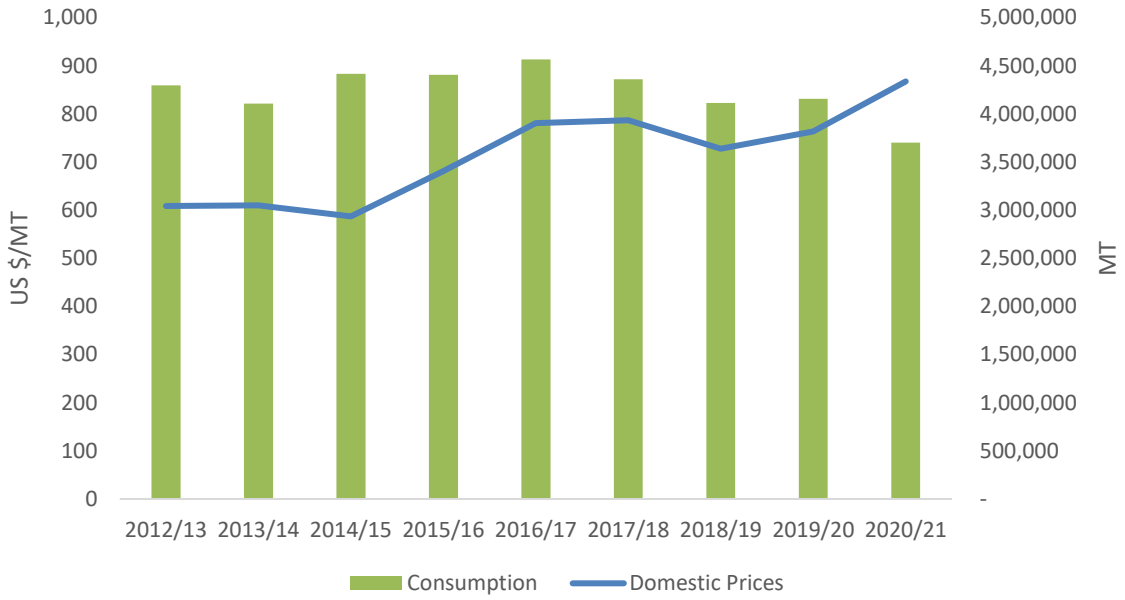
CONSUMPTION

Sugar consumption in Mexico has shown a modest decline in recent years, mainly due to reformulation of products containing sugar and HFCS for non-caloric sweeteners. And although the Government of Mexico has implemented numerous measures to try to discourage sugar consumption- such as a new front of pack labeling regulation and sugar and junk food taxes- there is little evidence that suggests these measures have significantly reduced consumption.

According to sales statistics and collections from the Special Tax on Products and Services (IEPS) collections for soda and junk food, the COVID-19 pandemic and subsequent shut down of restaurants and entertainment centers proved to be more effective in reducing the consumption of sugary drinks and high calorie snack food than the enforcement of octagonal warning labels on product packaging. Through July 2021, IEPS collections for junk food grew 22.5 percent from the previous year, with soda collections showing a modest 0.1 percent increase. Although the new Front of Pack Labeling Law went into effect in October 2020, businesses such as Bimbo – a major bakery and snack food maker – and Coca Cola saw positive or flat growth in fourth quarter sales, indicating consumers are unlikely to make dramatic consumption changes on account of the warning labels.

The Post sugar consumption forecast for MY 2021/22 is 4.62 MMT-RV with human domestic consumption at 4.20 MMT-RV. Human domestic consumption does not include the sugar sold to national companies as an input for a final product that will be exported.

Table 10. Sugar Consumption vs Domestic Standard Sugar Prices



The Post sugar consumption estimate for MY 2020/21 is 4.65 MMT-RV on increased use of the IMMEX program. Sugar use under the "other disappearance" category is mainly for the IMMEX, which has increased dramatically in the last two years due it's high returns as compared to selling to the non-U.S. market. The Post IMMEX forecast for MY 2021/22 is 435,000 MT-RV. The Post IMMEX estimate for MY 2020/21 is 435,000 MT-RV, 24 percent higher than the previous MY.

POLICY AND PROGRAMS

Production for Wellbeing Program

The "Production for Wellbeing Program" will continue to operate during MY 2021/22. The Government of Mexico provides economic support of $7,300 pesos (U.S. $340) per sugarcane producer (up to 20 hectares) registered in SADER's sugarcane registry, aimed at strengthening the income of producing families and sustaining and promoting production. The support is conditioned to the producers investing in actions that improve the productivity of the orchards, and the resource must be dedicated to plant renewal, fertilizer application, investment in irrigation systems or other water management systems, phytosanitary management, and agronomic practices. According to SADER's third government report, during MY 2020/21 federal support has been distributed to 133,081 producers.

Special Tax on Production and Services

According to the 2022 Public Budget Bill, the Special Tax on Production and Services (IEPS) on soft drinks, flavored beverages, and junk food will only increase to account for inflation. The IEPS tax on sugar-sweetened beverages began in 2014 and is currently 1.27 pesos per liter for flavored beverages, as well as concentrates, powders, syrups, essences or flavor extracts, and syrups or concentrates to prepare imported or flavored beverages. The IEPS tax on junk food began in 2014 and is currently at eight percent for products with a caloric density of 275 kilocalories or more per 100 grams.

STOCKS

The Post forecast for MY 2021/22 ending stocks is 1.34 MMT, on increased production and less than favorable export returns to the world market.

The Post estimate for MY 2020/21 ending stocks is 1.11 MMT-RV, 23 percent higher than the previous MY on lower exports and consumption.

SUGAR PRICES

The prices below (see Table 4) reflect sugar delivered to the wholesale market in Mexico City (on a 50-kilogram bag basis). Sales data from sugar mills is self- reported and collected in the System of Information and Integration of the Sugar Balance (SIIBA), managed by CONADESUCA. To ensure the accuracy of the information, sales data is also collected through audits of physical inventories and commercial operations four times a year.

Table 11: Mexico Centrifugal Sugar PS&D

Sugar, Centrifugal	2019/2020			2020/2021			2021/2022		
Market Begin Year	Oct-19			Oct-20			Oct-21		
Mexico	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	1,239	1,239	1,239	910	909	909	965	1,265	1,114
Beet Sugar Production	-	-	-	-	-	-	-	-	-
Cane Sugar Production	5,596	5,595	5,595	6,175	6,222	6,058	6,158	6,158	6,296
Total Sugar Production	5,596	5,595	5,595	6,175	6,222	6,058	6,158	6,158	6,296
Raw Imports	-	-	-	-	-	-	-	-	-
Refined Imp.(Raw Val)	82	58	58	111	25	34	89	21	30
Total Imports	82	58	58	111	25	34	89	21	30
Total Supply	6,917	6,892	6,892	7,196	7,156	7,001	7,212	7,444	7,440
Raw Exports	818	1,031	1,031	1,016	1,066	980	1,032	1,422	1,105
Refined Exp.(Raw Val)	467	255	255	573	253	250	583	270	352
Total Exports	1,285	1,286	1,286	1,589	1,319	1,230	1,615	1,692	1,457
Human Dom. Consumption	4,349	4,347	4,347	4,202	4,201	4,222	4,192	4,192	4,208
Other Disappearance	373	350	350	440	371	435	440	371	435
Total Use	4,722	4,697	4,697	4,642	4,572	4,657	4,632	4,563	4,643
Ending Stocks	910	909	909	965	1,265	1,114	965	1,189	1,340
Total Distribution	6,917	6,892	6,892	7,196	7,156	7,001	7,212	7,444	7,440
TS=TD	-	-	-	-	-	-	-	-	-

Table 12: Mexico Centrifugal Sugar Cane PS&D

Sugar Cane for Centrifugal	2019/2020			2020/2021			2021/2022		
Market Begin Year	Nov 2019			Nov 2021			Nov 2022		
Mexico	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	845	845	845	854	854	811	865	865	823
Area Harvested	783	783	783	791	791	790	783	783	792
Production	49,274	49,274	49,274	53,923	53,923	51,293	53,000	53,000	53,804
Total Supply	49,274	49,274	49,274	53,923	53,923	51,293	53,000	53,000	53,804
Utilization for Sugar	49,274	49,274	49,274	53,923	53,923	51,293	53,000	53,000	53,804
Utilizatn for Alcohol	-	-	-	-	-	-	-	-	-
Total Utilization	49,274	49,274	49,274	53,923	53,923	51,293	53,000	53,000	53,804
TS=TD	-	-	-	-	-	-	-	-	-

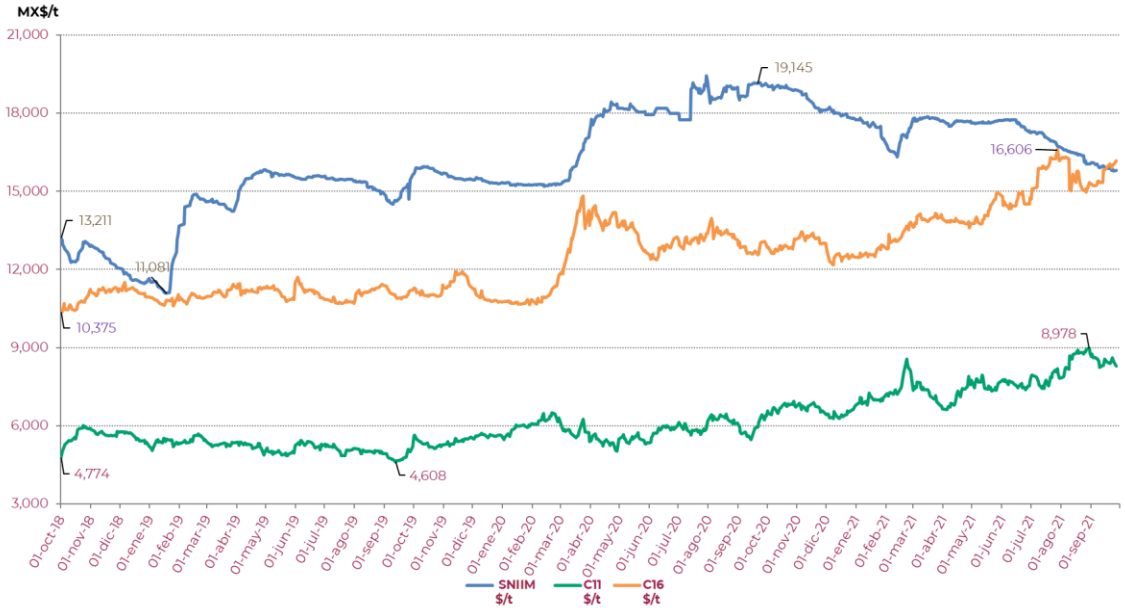
Table 13: Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms – Bulk

	Standard			Refined		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
January	579.5	725	NA	687.8	879.2	NA
February	740.5	730.3	845	796.3	874.4	1,021.60
March	702.5	809	827.1	789.6	918.6	970.93
April	760.2	893.1	818.5	829.7	929.6	946.67
May	762.3	885.2	820.1	837.8	912.6	949.1
June	758.3	NA	825.4	840.6	NA	952.42
July	755.2	934	786.38	822	1,026.70	976.92
August	730.6	929.4	759.38	795.8	1,025.80	968.17
September^	711.3	935	750.40	817.1	1,037.70	963.78
October	778.1	917.3	-	847.6	1,055.20	-
November	739.1	875.8	-	840.3	1,051.30	-
December	734	857	-	882	1,047.80	-

^Through the second week of September 2021

Source: SNIM

Table 14: Sugar Prices for Various Markets



SNIIM: sugar wholesale prices from 21 supply markets across the country.
C16: Price that serves as a reference for the U.S. market.
C11: Price that serves as a reference for other markets.
Source: CONADESUCA

Attachments:

No Attachments