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Report Highlights:

A rebound in Mexican sugar production is forecast for marketing year (MY) 2020/21, after a historic drought decimated the previous year's crop. However, low cane yields are expected due to lingering drought effects, pest pressures, and abnormal heavy rainfall in some producing areas. While production is forecast to rebound, exports are forecast down on reduced U.S. sugar needs. Additionally, government policies at both the state and federal level have recently been enacted to discourage the consumption of high sugar content food and beverages. Aimed at preventing further growth of obesity and diabetes in both children and adults, a new nutrition labeling law will go into effect on October 1, and Oaxaca became the first state in the country to ban the sale of high sugar content foods and beverages to minors under the age of 18. While the full effects on consumer consumption are not known, a number of stakeholders are expressing concern about potential impacts on the sugar cane sector.

PRODUCTION

The Committee for the Sustainable Development of Sugarcane (CONADESUCA) has not yet published an official sugar production forecast for MY 2020/21 (October-September); however, the Post forecast is at 6.25 MMT-RV¹, twelve percent higher than the previous marketing year. Although drought conditions experienced last MY in many sugar cane producing areas have been alleviated, production is forecasted below the annual average due to smaller cane with less sucrose content, pest infestations, and abnormal heavy rainfall in some sugar cane producing areas. Although northern Mexico is currently experiencing drought, it is unlikely to affect the large cane producing states of Veracruz and Jalisco. Harvested area is forecasted at 791,000 ha, with a cane harvest of 55.10 MMT, and a field yield of 69.65 mt/ha. Final sugar harvest will depend on sufficient rain and stable climatic conditions throughout the growing season and efficient milling capacities.

The final MY 2019/20 production report from CONADESUCA shows a final harvest of 5.59 MMT-RV, the lowest level observed in the past seven years, mainly due to severe drought in Tamaulipas, Veracruz, Quintana Roo, San Luis Potosi, Tabasco, and Campeche. Harvested area reached 783,486 hectares (Ha), with 52.23 MMT-RV of cane harvested. National yield yields reached 62.89 tons per hectare and factory yields at 10.71 (tons of sugar per tons of cane).

According to information from the National Service of Health, Food Safety and Quality (SENASICA), Mexico produced 9,014 MT of organic sugar in MY 2019/20, mainly in Puebla and Veracruz. Similar levels are expected in MY 2020/21, mainly in the states of Puebla and Veracruz.

Production Challenges

A locust infestation has affected 20 municipalities in Veracruz, most severely in the northern sections of the state. While the number of affected hectares is unknown, an adverse effect on field yields is expected. Producers are looking for mitigation efforts that will not negatively affect the ecosystem.

¹ One Metric Ton Raw Value (MT-RV)= 0.943396226 Metric Tons (MT)



The state of Quintana Roo is experiencing a fly infestation that has affected the germination of 2,000 hectares and is reducing yields. According to cane producers, abnormally heavy rains have fallen in Veracruz, Tabasco, and Campeche in recent weeks, and is likely to reduce yields. Growers from the state of Campeche have requested support from the state and federal government, where more than 800 hectares have been flooded, resulting in substantial economic losses.



Industry and Labor

There are more than 180,000 sugarcane producers who employ a large number of day laborers, cutters, and transporters, and others among the supply chain. Growers are organized within two major unions that represent over 95 percent of all cane growers. According to the sugarcane leaders, sugarcane cutters are paid between 60 or 70 pesos per ton cut (U.S. \$3) and can earn up to 3,000 pesos a week. However,

the difficult physical strain on workers and higher pay in other commodities (like grapes), has resulted in a reduction in available labor.

The *Compañía Azucarera del Río Guayalejo* sugar mill in Tamaulipas - in operation since 1946 - will close due to an adverse financial situation. While cane will be sent to a nearby mill, approximately 2,000 formal employees, 1,000 cane cutters, and other supply chain workers will be affected.

Table 1. Final Sugar Production by State MY 2019/20

State	Area Harvested (ha)	Cane Harvested (mt)	Field Yield (mt/ha)	Sugar Production (mt)	Factory Yield (%)
Veracruz	325,405	18,413,583	56.59	1,876,437	10.19
Jalisco	77,901	7,635,088	98.01	871,057	11.41
Chiapas	32,596	2,856,346	87.63	323,562	11.33
San Luis Potosí	75,715	2,855,404	37.71	310,947	10.89
Oaxaca	52,504	2,918,963	55.60	297,708	10.20
Nayarit	29,282	2,312,253	78.97	261,973	11.33
Morelos	17,486	1,773,235	101.41	236,206	13.32
Puebla	16,960	1,780,216	104.97	217,221	12.20
Others	155,638	8,729,381	56.09	883,208	10.12
Total	783,486	49,274,468	62.89	5,278,320	10.71

Source: CONADESUCA

Sugar Producing States



Table 2. Final Production MY 2019/20

	MY 2019/20*	Change from previous MY
Harvested area (ha)	783,486	-2.56%
Harvested cane (mt)	49,274,468	-13.61%
Field yield (mt/ha)	62.89	-11.34%
Sugar production (mt)	5,278,320	-17.86%
Factory yield (%)	10.71	-4.92%

Source: CONADESUCA

Table 3. Final Production by Quality (M.T.) MY 2019/20

Sugar Type	MY 2019/20*	Change from previous MY
Refined	1,263,847	-15.01%
Standard	3,100,534	-17.67%
Special white	196,010	-6.32%
Mascabado	3,304	-98.11%
Raw sugar < 99.2	714,626	-9.46%
Total	5,278,320	-17.86%

Source: CONADESUCA

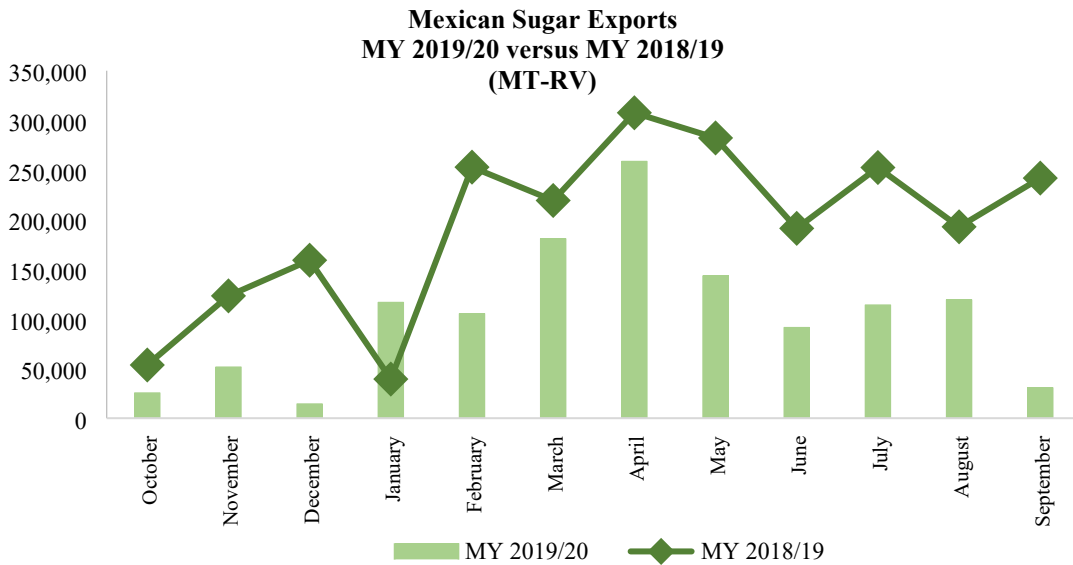
TRADE

The MY 2020/21 Post export forecast is 1.77 MMT-RV, 38 percent higher than the previous MY due to an expected rebound in production; Mexican exports will depend on U.S. sugar needs as determined throughout the marketing year. With U.S. production currently forecast to rebound from last MY, Mexico will likely seek alternative markets for exportable supplies.

Since 2014, sugar trade between the United States and Mexico is managed under the U.S. - Mexico Sugar Suspension Agreements. The agreements suspended antidumping (A.D.) 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 World Agriculture Supply and Demand reports. 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 forecast for MY 2019/20 is 1.28 MMT-RV, 44 percent lower than the previous MY due to production shortages.

Mexico was assigned an export quota of 1,481,229 MT-RV plus an extraordinary refined quota of 272,155 MT-RV; however, Mexico did not produce enough sugar to fulfill the entire quota while maintaining domestic supply needs. As of September 13, 1,063 MMT-RV of the original quota plus 148,183 MT-RV of the extraordinary refined sugar quota have been exported to the United States.

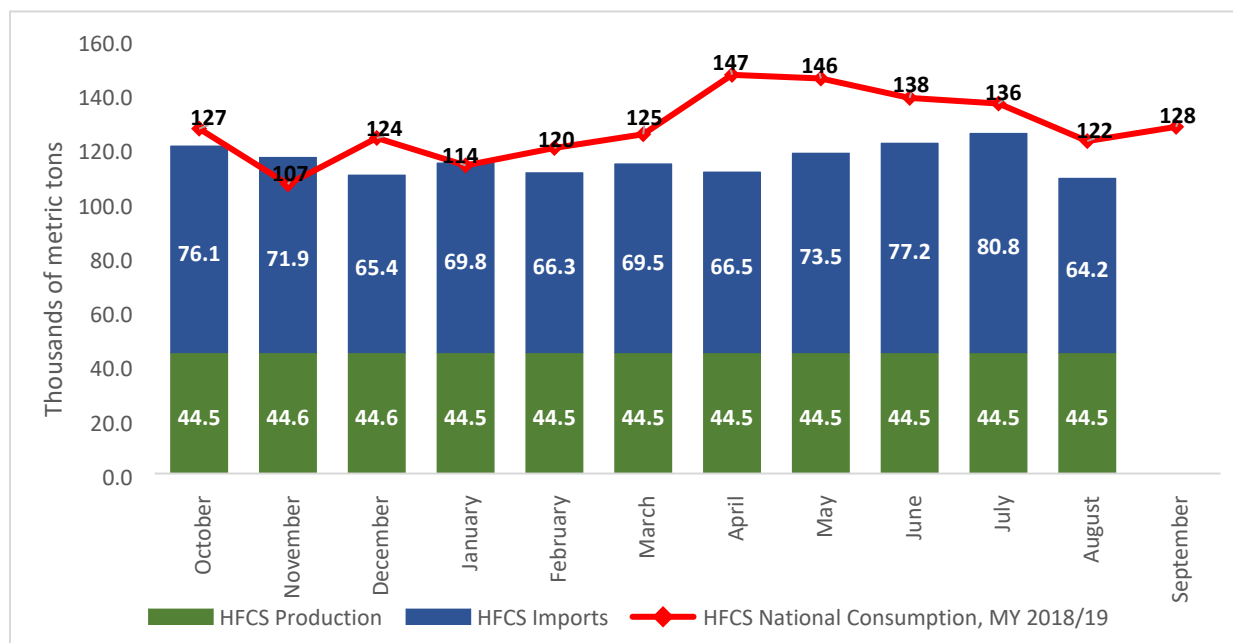


The Post forecast for MY 2020/21 sugar imports is 21,000 MT-RV, on the expected rebound to domestic production. Mexico typically produces enough sugar to cover domestic needs and imports only small amounts of specialty sugars not produced in-country.

The Post MY 2019/20 sugar import forecast is 48,000 MT-RV, 107 percent higher than the previous report due to tight domestic supplies and corresponding high prices that made imports more affordable. Imports to date have reached 45,449 MT-RV (mainly from Nicaragua and Guatemala).

High fructose corn syrup (HFCS) imports have shown a reduction during MY 2019/20, due to a strong U.S. dollar and more affordable international sugar. The Post forecast for HFCS imports in MY 2019/20 is 880,000 MT dry basis, four percent lower than the previous MY. Even with high domestic sugar prices, the depreciation of the peso and the COVID-19 pandemic has made expensive local sugar purchases more cost-effective than importing high fructose from the United States.

HFCS Imports MY 2019/20



CONSUMPTION

Sugar consumption in Mexico faces several challenges, ranging from reduced consumer purchasing power due to a weakening economy, federal and state government actions to curb the consumption of high-calorie/high sugar containing food and drink products, and a new front of pack labeling law (effective October 1, 2020). While full effects on consumer consumption are not known, a number of stakeholders and industry groups are expressing concern about potential impacts on the sugar cane sector and are appealing to the government to maintain support. (Please see the Policy section for a full breakdown of actions.)

The Post sugar consumption forecast for MY 2020/21 is 4.56 MMT-RV with human domestic consumption at 4.19 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.

The Post sugar consumption estimate for MY 2019/20 is 4.57 MMT-RV, four percent lower than the previous MY due to a large drop in consumption by the Manufacturing Industry, Maquiladora and Export Services Program (IMMEX).

Sugar use under the "other disappearance" category is mainly for the IMMEX program. The IMMEX program allows for the temporary importation of goods necessary for industrial preparations or transformations of imported products into a product for re-export. It is financially beneficial for

companies as they are not liable for some taxes; however, the IMMEX market is challenging to expand because companies require authorization from the Ministry of the Economy to participate.

The Post IMMEX forecast for MY 2020/21 is 371,000 MT-RV, 13 percent higher than the previous MY, as sugar mills are increasingly utilizing the program instead of exporting to the world market under suspension agreement rules and regulations. The Post IMMEX forecast for MY 2019/20 is 329,000 MT-RV, 22 percent lower than the previous MY, due to low production.

POLICY AND PROGRAMS

Front of Pack Labeling Law

Beginning on October 1, 2020, warning signs must be affixed to processed food and beverage labels if the product exceeds critical thresholds nutrients (e.g., fats, sugars, sodium, etc.). The regulation also mandates the use of precautionary legends for products that contain caffeine and sweeteners, and will also ban the use of characters, graphics, pictures, or games on products targeted toward children in the future. Coca-Cola has placed labels on products displaying two cautionary legends ("Contains Sweeteners: Avoid in Children" and "Contains Caffeine: Avoid in Children"). Manufacturers have until January 1, 2021, to reach full product compliance without penalty.



Nueva Mesa Campaign

On June 22, President Andrés Manuel Obrador announced the launch of a new health and nutrition campaign, "La Nueva Mesa" (the New Table), from the Secretariat of Consumer Protection (PROFECO), intending to improve nutrition and encourage healthier eating habits by eliminating processed and imported foods. A collaboration between the Secretariats of Agriculture, Economy, Education, Health, and Wellness, the campaign launched in July on radio, television, and social media outlets. The videos call for Mexicans to eliminate the consumption of junk food and increase exercise in order to reduce diseases such as hypertension and diabetes.

State-Level Bans on Sales of Soda and Junk Food to Minors

On September 8, the Governor of Oaxaca gave final approval on an amendment to the Law on Rights for Children and Adolescents that will ban the sale, distribution, and donation of highly processed foods and sugary drinks (*chatarra* in Spanish, which translates to "junk food") to minors under the age of 18. The Oaxacan Ministries of Health and Education will now work with the state government on an implementation plan that will outline product coverage, enforcement measures, and other details needed to implement the ban that will be enforced in grocery stores, markets, corner stores, and schools. While Oaxaca was the first state to pass a ban on *chatarra* sales to minors, interest in similar or adapted initiatives have proliferated across the country as federal and state governments grapple with high rates of diabetes and obesity in children. The state of Tabasco also passed a ban for minors shortly after Oaxaca; it is currently awaiting final approval from the governor. While international organizations, including UNICEF and FAO, welcomed the measures in favor of children's health, the food and beverage industry across the country oppose it.

Mexico City and the states of Puebla, Guanajuato, Jalisco, Tamaulipas, Colima, Nuevo Leon, Chihuahua, and Mexico State are considering enacting bans or prohibitions to combat high levels of obesity. There are at least seven proposals currently in the Mexico City Congress with measures to improve the health of minors in the city. Many of the proposals call for an amendment to the Children's and Adolescents Rights Act that would require strict regulations in the sale of high processed foods and sugary drinks to minors. An initiative proposed on September 8 calls for *chatarra* ban as seen in Oaxaca and Tabasco, but goes even farther to prohibit sales in restaurants, hotels, social clubs, bakeries and cafes, and prohibits the sale to parents if their children are with them. The proposals will now be sent to congressional commissions for further discussion and analysis before being brought to a potential vote.

Production for Wellbeing Program

During MY 2019/20, the Government of Mexico gave economic support of \$7,300 pesos (U.S. \$340) total per sugar cane producer (up to 20 hectares) through the "Production for Wellbeing" program, aimed to strengthen the income of producer families and to sustain and promote production. The support was conditioned on producers investing in actions that would improve the productivity of orchards, and the resource had to be dedicated to the renewal of plants, fertilizer application, investment in irrigation or other water management systems, phytosanitary management, and agronomic practices. The support is expected to continue into MY 2020/21; however, producers note that the amount is insufficient, and at least \$30,000 pesos per hectare are needed.

STOCKS

The Post forecast for MY 2020/21 ending stocks is 952,000 MT, the amount Mexico deems as its optimal final stock level (two and a half months of national consumption).

The Post forecast for MY 2019/20 ending stocks is 1,018 MMT-RV, 18 percent lower than the previous MY, due to lower production, high exports, and continued fulfillment of IMMEX contracts.

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 4: Mexico - Centrifugal Sugar PS&D

Sugar, Centrifugal Market Year Begins	2018/2019		2019/2020		2020/2021	
	oct-18		oct-19		oct-20	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	1,479	1,479	1,239	1,239	1,010	1,018
Beet Sugar Production (1000 MT)	-	-	-	-	-	-
Cane Sugar Production (1000 MT)	6,812	6,812	5,433	5,595	6,466	6,254
Total Sugar Production (1000 MT)	6,812	6,812	5,433	5,595	6,466	6,254
Raw Imports (1000 MT)	-	-	-	-	-	-
Refined Imp.(Raw Val) (1000 MT)	90	23	94	48	94	21
Total Imports (1000 MT)	90	23	94	48	94	21
Total Supply (1000 MT)	8,381	8,314	6,766	6,882	7,570	7,293
Raw Exports (1000 MT)	1,362	639	574	798	986	630
Refined Exp.(Raw Val) (1000 MT)	975	1,677	420	490	725	1,144
Total Exports (1000 MT)	2,337	2,316	994	1,288	1,711	1,774
Human Dom. Consumption (1000 MT)	4,317	4,338	4,301	4,247	4,388	4,196
Other Disappearance (1000 MT)	488	421	461	329	461	371
Total Use (1000 MT)	4,805	4,759	4,762	4,576	4,849	4,567
Ending Stocks (1000 MT)	1,239	1,239	1,010	1,018	1,010	952
Total Distribution (1000 MT)	8,381	8,314	6,766	6,882	7,570	7,293
(1000 MT)						

Table 5: Mexico - Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal Market Year Begins Mexico	2018/2019		2019/2020		2020/2021	
	Nov 2018		Nov 2019		Nov 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	843	0	845	845	848	848
Area Harvested (1000 HA)	804	0	810	783	812	791
Production (1000 MT)	57036	0	50908	49274	55000	55100
Total Supply (1000 MT)	57036	0	50908	49274	55000	55100
Utilization for Sugar (1000 MT)	57036	0	50908	49274	55000	55100
Utilization for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	57036	0	50908	49274	55000	55100
(1000 HA),(1000 MT)						

Table 4. Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms – Bulk

Month	Standard			Refined		
	2019	2020	Percent Change	2019	2020	Percent change
January	579.5	725.00	25.10	687.8	879.17	27.82
February	740.5	730.33	-1.37	796.3	874.38	9.80
March	702.5	809.00	15.16	789.6	918.63	16.26
April	760.2	893.13	17.48	829.7	929.58	12.03
May	762.3	885.20	16.12	837.8	912.63	8.93
June*	758.3	NA	NA	840.6	NA	NA
July	755.2	934.00	23.67	822	1026.67	24.89
August	730.6	929.38	27.20	795.8	1025.83	28.90
September^	711.3	927.42	30.38	817.1	1022.70	25.16
October	778.1	-	-	847.6	-	-
November	739.1	-	-	840.3	-	-
December	734	-	-	882	-	-

*No prices available.

^Through the first week of September.

Source: National Market Information Service SNIIM

Attachments:

No Attachments