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Mexico

Sugar Annual

Mexican Sweeteners Production Expected to Increase

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Report Highlights:

Sugar, sugarcane and HFCS production are all expected to increase for MY 2010/11, with Mexican consumption of sugar and HFCS increasing also. Increased sugar production should result in increased exports, while sugar and HFCS imports are expected to drop.

Executive Summary:

Sugar production for MY 2010/11 is expected to increase due to increased rain and good weather conditions. Sugarcane production is also expected to increase for the same reasons, along with increased area planted and investments by the sugar industry. HFCS production should increase also, due to low sugar supplies and associated high prices as well as good corn prices. Mexican sugar consumption is also expected to rebound for MY 2010/11, while HFCS consumption is expected to increase over 60 percent from MY 2008/09 levels. Sugar exports are expected to increase due to increased domestic supplies, with sugar imports dropping for the same reason. HFCS imports, meanwhile, are likely to decrease, but will depend on various factors. Sugar stocks for MY 2010/11 should remain similar to the previous year.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:**SUGAR**

Sugar production for the past two marketing years has been lower than expected due to weather-related problems, the closing of three mills in MY 2008/09, and decreased fertilization use due to higher costs of production. However, the sugar agroindustry should expect better sugar production for MY 2010/11 (Oct/Sep) compared to MY 2009/10, as rainfall and good weather have benefitted most sugar cane producing areas. Although there is no official Mexican forecast for sugar production for MY 2010/11, FAS/Mexico forecasts sugar production to increase to 5.35 million metric tons - raw value (MMT-RV) due to increasing sugar cane and mill yields. Final production will ultimately depend on timely maintenance of sugar mills, appropriate cultural practices, harvesting conditions and weather throughout the growing season.

The sugar production estimate for MY 2009/10 was revised down to 5.12 MMT-RV, based on official information while taking into account late rainfall that delayed harvest. The sugar production estimate for MY 2008/09 remains at 5.26 MMT-RV.

SUGARCANE

Nearly all sugarcane goes to the production of centrifugal sugar, which mainly occurs between November and May. Area planted for MY 2010/11 is forecast to increase to 740,000 hectares due to increased investments by the industry and expected good weather conditions. Area planted for MY 2009/10 was lower than expected, at about 728,000 hectares, due to higher costs of production and less-than-optimal weather. Area planted and harvested for MY 2008/09 were both revised down based on official information.

The National Sugar Committee estimates that area harvested for sugarcane for MY 2009/10 was 659,279 hectares. Even though there are provisions within the National Sugar Program (PRONAC) to encourage the production of ethanol from sugarcane, particularly for the export market, this process is still relatively unprofitable.

There are currently 57 sugar mills working in 25 Mexican states. In early 2009, the sugar industry closed three mills in Veracruz (Independencia, Concepcion and San Gabriel) for the MY 2008/09 crop cycle, but the mills resumed operations for the current crop cycle. Growers are organized within two major unions, which represent over 95 percent of all sugarcane growers: the CNC (National Sugarcane Growers) and the CNPR (National Association of Sugar Cane Growers). All

growers are contracted to deliver cane to the mills and they technical support and agrochemicals to grow sugarcane in return. The agroindustry has implemented better working relationships between the mills and the sugarcane grower associations and both sides now have an integrated production cycle.

According to current regulations, approximately 57 percent of the set reference price of standard sugar is paid to growers for sugarcane. The National Committee for the Sustainable Development of Sugarcane coordinates and directs PRONAC to determine the reference price for sugar, which is \$6,579 pesos/MT (approximately USD \$495.42/MT) for MY 2009/10. According to what has been established by the National Committee, this reference price will be used as the definitive sugar reference price for payment adjustments for MY 2008/09 sugarcane. The reference price corresponding to MY 2009/10 will be modified later in the year to pay the liquidation of sugarcane and the final adjustment.

Table 1. Mexico: Reference Price to pay Sugarcane MY2004/05-MY2009/10				
Sugarcane Marketing Year Oct/ Sept	STD sugar price Peso/ MT	STD sugar price Dollar/ MT	57 % payment to growers in Dollars	Exchange rate Peso per Dollar
2004/05	\$5,760.00	\$528.44	\$301.21	\$10.90
2005/06	\$5,760.00	\$528.92	\$301.48	\$10.89
2006/07	\$6,356.45	\$582.09	\$331.79	\$10.92
2007/08	\$5,996.13	\$549.09	\$312.98	\$10.92
2008/09	\$5,500.00	\$412.29	\$235.00	\$13.34
2009/10	\$6,579.21	\$495.42	\$282.38	\$13.28

HFCS

The Mexican high fructose corn syrup (HFCS) industry produces HFCS with domestic and imported U.S. yellow corn. According to IDAQUIM, the industry group that represents HFCS producers, this industry consumes about 2 million tons of yellow corn of which 80 to 90 percent is 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, corn can be imported by the industry at any time and it can focus only on price. On the other hand, the Government of Mexico (GOM) continues to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns. Nevertheless, sources indicate that Mexican farmers will continue to plant white corn due to a cultural resistance to change, lower yields of yellow corn compared to white, and difficulty accessing quality seed.

Sources indicate that the HFCS production for MY 2009/10 is forecast to increase to about 355,000 to 360,000 MT dry basis, due to higher prices for sugar and lower sugar supplies along with good international corn prices. HFCS production for MY 2008/09 is estimated at 345,000 MT dry basis and reflects a lower usage by soft drink bottlers since sugar prices were more attractive during that time.

Consumption: SUGAR AND HFCS

FAS/Mexico forecasts domestic sugar consumption for MY 2010/11 to rebound from MY 2009/10 due to an expected increase in sugar supplies at more affordable prices. Domestic sugar consumption for MY 2009/10 was revised down to 4.79 MMT-RV based on industry information and reflects a reduction in sugar consumption due to decreased consumer purchasing power and higher sugar prices. Also, higher sugar prices are giving way to the utilization of more HFCS, mainly by soft-drink bottlers. Sugar consumption for MY 2008/09 remains at 5.29 MMT-RV.

According to information from the Secretariat of Economy's Sistema Nacional de Informacion e Integracion de Mercados (SNIIM), sugar prices in the wholesale market escalated in 2009 compared to 2008 (for both standard and refined) due to

shorter supplies. Standard sugar prices in December 2009 increased 100 percent compared to the same period in 2008, and 86.6 percent for refined sugar. Prices remained high despite the GOM allowing the entry of more TRQ sugar to prevent speculation. Sugar prices for January - March 2010 still show the same tendency of high prices and the government has again allowed extra TRQ imports with the hope of increasing supplies and lowering prices in the wholesale market. (Please see GAIN Report MX0006: "Mexico to Allow Additional Sugar to Enter", 2/19/2010.)

However, in April 2010, prices began to plummet and sugarcane growers in Veracruz protested by blocking 18 mill-warehouses to prevent the sale of sugar at low prices. Sources indicate the GOM's decision to allow the importation of 250,000 tons of sugar helped decrease sugar prices. An official from the National Confederation of Rural Property Owners said protests could spread to 15 other sugar-producing states.

Lower sugar production and high prices are helping HFCS consumption increase, and therefore consumption for MY 2009/10 is forecast at 1.1 million MT dry basis. This represents a growth of about 60 percent in consumption compared to MY 2008/09. Lower HFCS import prices have favored the soda-drink bottlers who are using more HFCS than sugar in their formulas. Consumption of HFCS in MY 2008/09 was about 656,000 MT dry basis, since HFCS prices were less competitive than sugar prices. HFCS import prices for the last quarter of 2009 were approximately 11 percent lower compared to the same quarter in 2008. Any increase in HFCS consumption will depend on domestic sugar prices, corn prices, sugar domestic supplies, and the exchange rate against the dollar.

Trade:

SUGAR

Mexican sugar exports for MY 2010/11 are forecast to increase compared to MY 2009/10 due to an expected increase in sugar supplies. The final figure will ultimately depend on final production for the marketing year and the extent of substitution of sugar for alternative domestic and imported sweeteners. Despite lower inventories, Mexico exported about 370,000 MT-RV of sugar for MY 2009/10 due to international commitments. According to CNDSCA, sugar exports for MY 2008/09 are approximately 1,091 MT-RV. However, the Global Trade Atlas (GTA) data indicates Mexican exports to be 1,348 MT-RV, with 1,272 MT-RV being exported to the United States.

The MY 2010/11 sugar imports [1] required to cover the needs for the Mexican Re-Export Program (IMMEX) industries are forecast to be lower compared to MY 2009/10, as domestic supplies are expected to be higher. The MY 2009/10 sugar imports were revised upward due to lower sugar production. These imports include an additional tariff-rate quota of 250,000 MT (265,000 MT-RV) of sugar to enter due to the GOM's prediction of lower inventories. Since August 2009, Mexico has allowed two different auctions for additional sugar to enter. Sugar imports for MY 2008/09 were revised down to 159,000 MT-RV as less sugar was imported for the IMMEX industries.

MY 2009/10 sugar use under the "other disappearance" category, which is used mainly for IMMEX, is estimated to use a total of 392,000 MT-RV of sugar. [2] The IMMEX program allows sugar to be sold to Mexican food manufacturers as raw material for further processing. These food manufacturers must then process the sugar within six months of the date of purchase (please see GAIN 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 IMMEX program is forecast to use approximately 400,000 MT-RV of sugar for MY 2010/11.

HFCS

HFCS imports for MY 2009/10 are forecast to increase to approximately 800,000 MT dry basis as lower domestic sugar supplies (at higher prices) have encouraged HFCS consumption. Imported HFCS prices for 2009 were lower compared to prices in 2008, a situation that is helping spur imports into Mexico. Imports for MY 2008/09 were slightly lower than previously expected at about 311,000 MT dry basis, as unfavorable exchange rates and higher prices for imported HFCS limited demand. The imports of HFCS for MY 2010/11 could slow down compared to MY 2009/10 but will depend on domestic sugar prices, sugar domestic supplies, and the exchange rate. The average exchange rate for February 2010 was USD \$1.00=\$12.95 pesos; whereas the average exchange rate for 2009 was USD \$1.00=\$14.55 pesos. Therefore, the industry is expecting increased demand for HFCS in 2010.

^[1] 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.

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

Table 2. Mexico: Sugar Exports And Imports			
SUGAR	H.T.S. 1701	Units: Metric Tons	
Exports for MY 2008/09 (Oct/Sept) to:		Imports for MY 2008/09 (Oct/Sept) to:	
United States	1,279,501	United States	124,799
Other		Other	
CANADA	12,375	GUATEMALA	19,933
Total Of Other	12,375	Total Of Other	19,933
Other not listed	9,061	Other not listed	5,978
Grand total	1,300,937	Grand total	150,710

Source: Global 2000-2010 Global Trade Information Services, Inc.

Note: Expressed values for H.S.T. 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

Table 3. Mexico: HFCS Exports And Imports For HTS Code 1702.40			
HFCS	H.T.S. 1702.40	Units: Metric Tons	
Exports for MY 2008/09 (Oct/Sept) to:		Imports for MY 2008/09 (Oct/Sept) to:	
United States	346	United States	29,259
Other		Other	
Germany	303	Canada	1,049
Total Of Other	303	Total Of Other	1,049
Other not listed	38	Other not listed	17
Grand total	687	Grand total	30,325

Source: 2000-2010 Global Trade Information Services, Inc.

Note: Expressed values for H.S.T. 1702.40 consolidate the following subheadings:

1702.40.00, 1702.40.01 & 1702.40.99.

Table 4. Mexico: HFCS Exports And Imports For HTS Code 1702.60			
HFCS	H.T.S. 1702.60	Units: Metric Tons	
Exports for MY 2007/08 (Oct/Sept) to:		Imports for MY 2007/08 (Oct/Sept) to:	

United States	9,788	United States	370,630
Other		Other	
NETHERLAND	1,902	Canada	5,763
Total Of Other	1,902	Total Of Other	5,763
Other not listed	2,614	Other not listed	0
Grand total	14,304	Grand total	376,393

Source: 2000-2010 Global Trade Information Services, Inc..

Note: Expressed values for H.S. 1702.60 consolidate the following subheadings:

1702.60.00, 1702.60.01, 1702.60.02 & 1702.60.99

Table 5. Mexico: Average Wholesale Sugar Prices								
Units: 50 Kg. Bulk/Pesos								
MONTH	STANDARD			Change % (09-10)	REFINED			Change % (09-10)
	2008	2009	2010		2008	2009	2010	
January	276.20	272.75	552.25	102.47	323.53	329.50	647.71	96.57
February	260.17	272.88	626.75	129.67	313.25	329.33	679.17	106.22
March	260.98	289.20	587.83	103.26	309.42	339.07	679.03	100.26
April	273.50	329.00	N/A	N/A	325.00	357.34	N/A	N/A
May	255.13	337.17	N/A	N/A	316.33	395.00	N/A	N/A
June	248.88	371.20	N/A	N/A	307.83	429.33	N/A	N/A
July	267.20	424.13	N/A	N/A	322.67	451.67	N/A	N/A
August	261.67	465.25	N/A	N/A	329.17	484.58	N/A	N/A
September	262.60	658.50	N/A	N/A	332.43	688.00	N/A	N/A
October	264.50	616.25	N/A	N/A	331.75	660.83	N/A	N/A
November	264.25	599.21	N/A	N/A	330.42	671.67	N/A	N/A
December	280.60	562.10	N/A	N/A	334.94	625.28	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								

Table 6. Mexico: Monthly Exchange Rate Averages				
2007-2010				
MX Pesos per U.S. \$1.00				
	2007	2008	2009	2010
January	10.94	10.91	13.15	12.80
February	10.99	10.77	14.55	12.95
March	11.12	10.74	14.71	N/A
April	10.98	10.52	13.41	N/A
May	10.82	10.44	13.19	N/A
June	10.83	10.33	13.47	N/A
July	10.80	10.24	13.36	N/A
August	10.50	10.10	13.00	N/A
September	10.92	10.61	13.41	N/A
October	10.92	12.56	13.24	N/A
November	10.87	12.31	13.12	N/A
December	10.84	13.40	12.85	N/A
Annual Avg.	10.92	11.14	12.33	12.87

Source: Mexican Federal Register
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

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Sugar stocks for MY 2010/11 are forecast to remain similar to MY 2009/10 (even if slightly higher), but will ultimately depend on final sugar production levels. Stocks for MY 2009/10 were revised down due to lower sugar production expectations. Stocks for MY 2008/09 are 623,000 MT-RV and reflect official data.

Due to the need to maintain a stable market, the Secretariat of Economy (SE) published another announcement to allow sugar to be imported under a TRQ for 265,000 MT-RV on February 9, 2010. The SE has implemented a “first come, first served method” from March 1 to May 20, 2010. The TRQ will be from USD \$13.80 to \$36.60 per MT, instead of the general tariff (USD \$338 to \$360 per MT of sugar) and will depend on quality. Ninety percent of the quota can be imported from any country, but 10 percent of the quota must originate from Nicaragua, at zero duty. Since August 2009, Mexico has allowed two different auctions for additional sugar to enter.

The GOM is expected to continue managing the return/selling of Mexico's last government-owned sugar mills back to private ownership. In September 2009, the San Pedro (Veracruz) and Santa Rosalia (Tabasco) mills were sold to the private sector and the La Joya mill in Campeche was sold in March 2010. The GOM still manages 10 sugar mills.

The Biofuels Law, which first passed Congress on April 26, 2007, and was amended in October 2007, was finally published in the Mexico's *Diario Oficial* (Mexican Federal Register) on February 1, 2008. As previously reported, the Law contains a comprehensive biofuels policy that promotes ethanol production from different agricultural commodities. 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 when compared to countries like Brazil where sugar cane is sold between USD \$15 and \$18 (in Mexico, sugar cane is about \$37 to \$40 dollars per ton). There are, however, provisions within the Sugar Law 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 primarily focused on other crops used as inputs for ethanol production. Recently PEMEX (Mexican parastatal oil company) selected a company (through a bid) to produce ethanol for blending with gasoline and tried to promote it in the city of Guadalajara, but the agreement failed. PEMEX will have to publish an auction to have companies bid again.

MEXICO: CENTRIFUGAL SUGAR PSD

[illegible]

Cane Sugar Production	5,260	5,554	5,260	5,400	5,870	5,123			5,350
Total Sugar Production	5,260	5,554	5,260	5,400	5,870	5,123			5,350
Raw Imports	10	10	0	25	50	50			20
Refined Imp.(Raw Val)	205	160	159	685	300	785			250
Total Imports	215	170	159	710	350	835			270
Total Supply	7,450	7,337	7,394	6,750	7,246	6,581			6,650
Raw Exports	420	100	393	230	50	22			20
Refined Exp.(Raw Val)	850	480	698	460	250	348			395
Total Exports	1,270	580	1,091	690	300	370			415
Human Dom. Consumption	5,065	5,291	5,292	4,900	5,345	4,790			5,110
Other Disappearance	475	440	388	400	490	392			400
Total Use	5,540	5,731	5,680	5,300	5,835	5,181			5,510
Ending Stocks	640	1,026	623	760	1,111	1,030			725
Total Distribution	7,450	7,337	7,394	6,750	7,246	6,581			6,650

MEXICO: SUGAR CANE FOR CENTRIFUGAL SUGAR PRODUCTION

Sugar Cane for Centrifugal Mexico	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
			Data			Data			Data
Area Planted	680	738	759	0	740	728			740
Area Harvested	668	698	663	0	698	659			663
Production	49,000	45,000	42,517	0	52,000	43,317			44,000
Total Supply	49,000	45,000	42,517	0	52,000	43,317			44,000
Utilization for Sugar	49,000	45,000	42,517	0	52,000	43,517			44,000
Utilization for Alcohol	0	0	0	0	0	0			0
Total Utilization	49,000	45,000	42,517		52,000	43,517			44,000

Author Defined: USEFUL WEB LINKS

Cámara Azucarera
www.camaraazucarera.org.mx

ZAFRA Net
<http://www.zafranet.com/nosotros/>

INFOAZUCAR
<http://www.siap.gob.mx/ventana.php?idLiga=846&tipo=0>

Sistema de Información Arancelaria via Internet
<http://www.economia-snci.gob.mx:8080/siaviWeb/siaviMain.jsp>

Union Nacional de Cañeros
<http://www.caneros.org.mx/urgente.htm>

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