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Sugar

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Report Highlights:

Sugar production for MY 2003/04 is forecast higher due to good weather and expected improved production practices by government sugar mills. Mexico announced a refined sugar TRQ (Sep/Dec 03) of 112,000 MT. The TRQ is intended to curb speculation within Mexico. Human domestic consumption was also revised upward due to a higher 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

Sugar production for MY 2003/2004 (October/September) is forecast to increase to 5.46 million metric tons (MT), due to higher yields as a result of good weather. Official sources maintain that this increase is also due to expected better production from the government-owned mills, which increased output as a result of better management during MY 2002/03. Production depends on timely maintenance of the sugar mills as well as access to credit and availability of incentives to producers. Area planted and harvested for MY 2003/04 is expected to remain unchanged, but cane production was revised upward, due to good weather conditions and expectations of increased cane yields. Area planted remained steady this year, but if the soft drink industry continues its demand for sugar as a result of the 20-percent HFCS beverage tax, area planted may increase in the future.

At the same time, there is uncertainty in the sugar sector because the government has been unable to define an overall policy for the industry and some issues pertaining to the expropriation of the sugar mills have not yet been resolved. Government compensation for the mills has not been paid to the previous owners, in part due to the fact that several former sugar mill owners have filed court injunctions against the reprivatization. From the 27 mills expropriated by the government, six mills have won the court injunctions and 12 mills have lost their court injunctions to the government; the court cases of the other nine mills are still in the process of resolution. Additionally, a medium-term goal of the National Sugar Policy calling for redefinition of the legal framework that regulates relations between mill workers and mill owners, and the system of payment for sugarcane ("*contrato ley*" and "*decreto cañero*") has not yet been attained because of the uncertainties regarding the mills' expropriation. This situation has delayed the government's general objectives of reconverting and modernizing the mills and restructuring the sugar market. Despite this, industry indicates that two mills could soon be ready for reprivatization.

Sugar production for MY 2002/03 has been revised upward from previous estimates, due to good weather conditions and better industry organization. Planted sugarcane area for MY 2002/03 remains unchanged. Area harvested was revised upward based on official data. Sugarcane production was revised upward to 43,948 MMT, due to better yields. Mill yields and recovery rates were about 11.21 percent. The sugar industry believes that, since the government expropriated the sugar mills and began to reorganize the sugar market, domestic sugar prices slowly began to increase to levels which it now considers to be reasonable; before this reorganization, the sugar industry considered prices to be too low and reflective of a poorly structured market. According to the industry, sugar F.O.B. mill prices for standard and refined sugar increased 13 percent and 18 percent respectively during MY 2002/03. It is important to note that the 20-percent tax on HFCS-containing beverages has been in effect since January 2002, thus increasing the domestic soft drink industry's demand for sugar. Sugar production data for MY 2001/02 remains unchanged.

High fructose corn syrup (HFCS) production for CY 2003 is forecast to be approximately 100,000 MT dry basis, slightly lower than CY 2002 production, due to the continued imposition of the 20-percent tax on HFCS-containing beverages. HFCS production is forecast to remain at this level for the remainder of CY 2003 based on the assumption that no resolution is reached in the U.S.-Mexico sweetener dispute. Those companies manufacturing HFCS in Mexico have indicated that the tax has harmed investment in their industry and at least one company is seeking legal redress in the Mexican courts. U.S. corn imports, 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.

SUGAR AND HFCS CONSUMPTION

Sugar for human domestic consumption for MY 2003/04 was revised upward to 5,195 MMT from previous estimates, due to more demand. The soft drink industry forecast its MY 2003/04 sugar consumption at about 1.8 to 1.9 MMT, a slight increase over MY 2002/03, based on the assumption that the 20-percent duty on HFCS-containing beverages will remain in place.

Sugar for human domestic consumption for MY 2002/03 was revised upward because of increased demand from the soft drink industry, due to the 20-percent tax on HFCS-containing beverages. Industry sources estimated MY 2002/03 sugar consumption for the soft drink industry to be about 1.7 to 1.8 MMT. Sugar for domestic consumption for MY 2001/02 was revised upward based on industry data.

HFCS consumption for CY 2003 is forecast to be at 100,000 MT, as only the bakery, food processing, fruit and juice canning, and yogurt industries continue to use HFCS. 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.

SUGAR TRADE

The forecast for MY 2003/04 sugar exports under the “other disappearance” category was revised upward based on industry information, which reflects increased exports under the Mexican re-export program (PITEX). The PITEX program allows domestically-produced sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within three 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 enables the industry to avoid the situation which 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 2002/03 sugar exports under “other disappearance” category was revised downward from previous estimates to 135,000 MT. Mexico's National Sugar Chamber claims that those Mexican companies which consume sugar in the processing of their products for re-export under the PITEX program had overestimated the amount of sugar needed for their industries and that there is in fact no shortage of sugar. However, sugar end user companies continue to claim that there is a shortage of sugar and that more is needed for their industries. According to the Government of Mexico (GOM), this discrepancy between two segments of the Mexican sugar industry is one of the reasons contributing to sugar price speculation, which itself was the underlying cause behind the GOM's decision to authorize a tariff-rate-quota (TRQ) for refined sugar (see information below). Data for sugar exports for MY 2001/02 remain unchanged.

Total sugar exports for MY 2003/04 were revised downward as more sugar is expected to be consumed domestically. The Mexican industry had been exporting excess sugar to the world market on a per mill-quota basis to prevent downturns in domestic sugar prices until MY 2002/03; when it started consuming more sugar domestically. Therefore, MY 2002/03 total sugar exports were also revised downward. Data for MY 2001/02 remains unchanged.

Total sugar imports for MY 2003/04 were revised upward, mainly in refined sugar, due to the sugar TRQ that Mexico announced on September 27, 2003 (see report MX3128). At this point, it is expected that Mexico will fill a significant portion (perhaps all) of the TRQ. The objective of this measure is to ensure that there will be enough strategic reserves to meet domestic demand, in case domestic sugar stocks are insufficient during the balance of 2003 (September 27 – December 31, 2003). GOM authorities also indicated that one of the motives for implementing this measure was to deter price speculation and sugar price increases. September 2003 refined sugar prices at the wholesale market are about \$360.00/ 50Kg (US\$32.72/ 50Kg) F.O.B., while at the beginning of MY 2002/03, prices were \$297.80/50kg (US\$29.51/50kg). Data for MY 2001/02 and 2002/03 remain unchanged.

As the U.S. authorities did not assign a NAFTA sugar allocation for U.S. fiscal year (FY) 2003 (October-September), Mexico did not export sugar under the NAFTA agreement. The WTO sugar allocation for FY 2003 was set at 7, 258 MT plus the 2,954 MT of refined sugar.

HFCS TRADE

Due to the imposition of the 20-percent duty on HFCS-containing soft drinks and beverages and given the assumption that it will remain in place, HFCS imports for CY 2003 are forecast to be insignificant. According to sources, only crystallized fructose for the health food industry is being imported (HTS 1702.50.01). The Secretariat of Economy did not determine the amount of the CY 2003 HFCS quota nor how the import permit system for U.S. HFCS imports will function, since there has been no resolution of the U.S.-Mexico sweetener dispute.

STOCKS

Due to higher sugar production estimates for MY 2003/04 and an expected increase in refined sugar imports, final inventories were revised upward. As explained earlier, as a measure to ensure strategic reserves, the government is expected to import refined sugar for the balance of CY 2003, which will be reflected in MY 2003/04 (October-September). Despite the fact that some sugar consuming industries had predicted a severe sugar shortage for MY 2002/03, due to an increase in sugar usage by the soft drink bottling industry, final inventories were revised slightly upward. Stocks for MY 2001/02 were revised downward based on an increase in domestic consumption.

SECTION II. STATISTICAL TABLES

Centrifugal Sugar Table

PSD Table						
Country	México					
Commodity	Centrifugal Sugar				(1000 MT)	
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2001		10/2002		10/2003	
Beginning Stocks	1456	1456	1182	1172	1142	1167
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5169	5169	5198	5229	5188	5464
TOTAL Sugar Production	5169	5169	5198	5229	5188	5464
Raw Imports	4	4	4	4	4	4
Refined Imp. (Raw Val)	48	48	35	35	30	119
TOTAL Imports	52	52	39	39	34	123
TOTAL SUPPLY	6677	6677	6419	6440	6364	6754
Raw Exports	101	101	30	6	20	6
Refined Exp. (Raw Val)	312	312	70	40	60	60
TOTAL EXPORTS	413	413	100	46	80	66
Human Dom. Consumption	4902	4912	4987	5092	4997	5195
Other Disappearance	180	180	190	135	138	150
Total Disappearance	5082	5092	5177	5227	5135	5345
Ending Stocks	1182	1172	1142	1167	1149	1343
TOTAL DISTRIBUTION	6677	6677	6419	6440	6364	6754

Sugarcane for Centrifugal Sugar

PSD Table						
Country	México					
Commodity	Sugar Cane for Centrifugal		(1000 HA)(1000 MT)			
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	11/2001		11/2002		11/2003	
Area Planted	700	700	700	700	700	700
Area Harvested	607	607	605	606	609	609
Production	42904	42904	41600	43948	43000	44500
TOTAL SUPPLY	42904	42904	41600	43948	43000	44500
Utilization for Sugar	42904	42904	41600	43948	43000	44500
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	42904	42904	41600	43948	43000	44500

Sugar Prices

SUGAR PRICES						
UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2002	2003		2002	2003	
JANUARY	245.76	268.50	9.25	288.40	310.81	7.77
FEBRUARY	244.46	266.46	9.00	283.56	310.73	9.58
MARCH	243.44	265.01	8.86	284.03	308.13	8.49
APRIL	242.14	270.04	11.52	280.56	313.20	11.63
MAY	240.83	273.14	13.42	278.54	315.26	13.18
JUNE	239.15	278.50	16.45	279.34	320.36	14.68
JULY	244.95	285.05	16.37	285.98	334.24	16.88
AUGUST	248.15	287.64	15.91	292.64	339.84	16.13
SEPTEMBER	253.40	287.25*	13.36	298.51	360.00*	13.90
OCTOBER	262.31	N/a	N/a	303.09	N/a	N/a
NOVEMBER	266.23	N/a	N/a	306.90	N/a	N/a
DECEMBER	268.39	N/a	N/a	309.50	N/a	N/a

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA

2002 Avg. Exchange Rate US\$1.00=\$9.82 pesos

2003 Exchange Rate September 15, 2003 US\$1.00=\$10.97 pesos

* As of 3rd week of September, 2003

Trade Matrixes

SUGAR H.S. 1701		UNITS: METRIC TONS	
EXPORTS FOR CY 2003* TO:		IMPORTS FOR CY 2003* FROM:	
U.S.	4,488	U.S.	24,609
OTHER		OTHER	
UNITED KINGDOM	7,506	COLOMBIA	1,867
TOTAL OF OTHER	7,506	TOTAL OF OTHER	1,867
OTHERS NOT LISTED	1	OTHERS NOT LISTED	113
GRAND TOTAL	11,995	GRAND TOTAL	26,589

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2003.

* As of June 2003

**NOTE: EXPRESSED VALUES FOR H.S. 1701 CONSOLIDATES THE FOLLOWING SUBHEADINGS:
1701.11.01 1701.11.02 1701.11.03 1701.11.99 1701.12.01 1701.12.99 1701.91.00
1701.91.01 1701.99.01 1701.99.02 1701.99.03 & 1701.99.99**

HFCS 1702.40		UNITS: METRIC TONS	
EXPORTS FOR CY 2003* TO:		IMPORTS FOR CY 2003* FROM:	
U.S.	9,538	U.S.	1,404
OTHER		OTHER	
GUATEMALA	20	FRANCE	2
TOTAL OF OTHER	20	TOTAL OF OTHER	2
OTHERS NOT LISTED	21	OTHERS NOT LISTED	0
GRAND TOTAL	9,579	GRAND TOTAL	1,406

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2003.

* As of June 2003

**NOTE: EXPRESSED VALUES FOR H.S. 1702.40 CONSOLIDATES THE FOLLOWING SUBHEADINGS:
1702.40.00, 1702.40.01 & 1702.40.99.**

HFCS 1702.60		Subheading	UNITS: METRIC TONS	
EXPORTS FOR CY 2003* TO:			IMPORTS FOR CY 2003* FROM:	
U.S.		4,907	U.S.	2,866
OTHER			OTHER	
GERMANY		337	GERMANY	0
TOTAL OF OTHER		337	TOTAL OF OTHER	0
OTHERS NOT LISTED		100	OTHERS NOT LISTED	0
GRAND TOTAL		5,344	GRAND TOTAL	2,866

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2003.

* As of June 2003

NOTE: EXPRESSED VALUES FOR H.S. 1702.40 CONSOLIDATES THE FOLLOWING SUBHEADINGS: 1702.60.00, 1702.60.01 & 1702.60.99.

Sugar Tariffs

MEXICAN SUGAR IMPORT TARIFFS FOR 2002		
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	0.39586
1701.11.99	0.31668	0.39586
1701.12.01	0.31668	0.39586
1701.12.99	0.31668	0.39586
1701.91.01	0.31668	0.39586
1701.99.01	0.31668	0.39586
1701.99.99	0.31668	0.39586
1702.90.01	0.31668	0.39586
1806.10.01	0.31668	0.39586
2106.90.05	0.31668	0.39586

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-containing products covered by these tariff lines will be subject to a tariff that is derived by multiplying the regular "most favored nation" (MFN) tariff in effect at the time of importation by a factor of 0.8. If the importer does not have that written statement, then the merchandise will be subject to the regular MFN tariff without any reduction.