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Sugar

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Report Highlights:
The sugar production forecast for MY 2002/03 was revised downward from earlier forecasts to 5.0 MMT. Domestic sugar consumption was revised upward due to an expected increase of sugar use in the soft drink industry. Exports for MY 2002/03 were also revised downward. However, consumption and trade data of sugar will depend on the current U.S.-Mexico NAFTA sugar negotiations.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
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SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

The sugar industry and the sugarcane growers have not yet set a sugar production estimate for MY 2002/2003 (November/October). However, the industry and other sources indicate that sugar production is forecast to go down for the following reasons. The first one is that dry weather conditions that prevailed in 2002 in the main leading sugar cane producing state, Veracruz, will somewhat affect cane yields. The other reason is that the industry is expecting that the reprivatization of the 27 sugar mills, which are now being administered by the government, will result in the closing of some of those mills. As a result, sugar production was revised downward from previous estimates. Despite this industry reorganization, overall mill yields are expected to remain good in MY 2001/02. Area planted and harvested for MY 2002/03 remain unchanged, but cane production was revised downwward. The industry has tried to maintain the current area devoted to sugarcane and there are no plans to increase or decrease area significantly.

Sugar production for MY 2001/02 has been revised downward to 5.16 million metric tons (MMT) raw value, slightly less compared to MY 2000/01 production. The industry believes total output to be good, considering the fact that the government had expropriated 27 sugar mills at the beginning of the harvest season. The overall mill yield increased from 11.07 percent in MY 2000/01 to 11.36 percent in MY 2001/02. However, dry weather in Veracruz, affected overall cane yields, which decreased from 73.5 MT/Ha in MY 2000/01 to 70.4 MT/Ha in MY 2001/02. Therefore, area harvested and sugarcane production for MY 2001/02 was revised downward. It is important to note that some of the measures that the government implemented through the National Sugar Policy (report MX2031), have enabled the sugar industry to have access to more credit lines in order to pay cane producers on time. Also, better government management of the expropriated mills led to a more orderly marketing of the sugar, which resulted in better producer and market prices. In fact, sugar prices at the wholesale market had fewer price fluctuations during 2002 compared to 2001. Sugar production data for MY 2000/01 remains unchanged.

Some issues pertaining to the expropriation of the sugar mills have not been resolved yet, due to certain constraining factors. For one, government compensation for the mills has not been paid to the previous owners, who maintain that that the government has no plans to sell them. The government has announced plans to reschedule the reprivatization of the 27 sugar mills to March 2003, or even later, due, in part to the fact that several former sugar mill owners have filed court injunctions against this reprivatization. Therefore, the government will have to wait for the resolution of these injunctions. Of the 11 sugar mills in this situation, five belong to the "Grupo Azucarero México" Company and six belong to the Santos Group, both of which have requested a compensation of between $80 and $100 million dollars. The government now believes that the mills have increased in value, due to better industry reorganization as a result of the GOM’s National Sugar Policy. However, there are some analysts who believe that the government should now close some inefficient sugar mills instead of selling them. A medium-term goal of the National Sugar Policy calls for redefining the legal framework that regulates relations between mill workers and mill owners, and the system of payment for sugarcane (*"contrato ley" and "decreto cañero"*). According to analysts, the government needs to accelerate these changes in order to expedite and improve the reorganization of the sugar industry.

HFCS PRODUCTION

High fructose corn syrup (HFCS) production for CY 2002 has been reduced substantially compared to CY 2001 production. According to industry information, HFCS production is expected to be 150,000 MT. Last CY 2001, HFCS production ranged approximately from 250,000 to 350,000 MT. The main reason for this decrease in production is the effect of the imposition and subsequent recall of the 20 percent duty imposed on HFCS-containing soft drinks and beverages. This tax first took effect on January 1, 2002, but was subsequently repealed by President Fox two months later. On July 12, 2002, the Supreme Court of Justice unanimously voted for the immediate reimposition of the 20 percent duty on soft drinks and beverages that contain HFCS. This decision nullified a previous Presidential decision in March 2002 which had suspended the tax until September 30, 2002. After Fox's decision to temporarily revoke the tax, Mexican legislators brought the case to the Supreme Court, contending that the executive branch's ability to repeal a tax passed by Congress was unconstitutional. The Supreme Court decision of July 12, 2002 ruled in favor of Congress on these grounds of unconstitutionality. However, this decision did not rule on the fairness of Congress' initial imposition of this tax. As a result of the imposition of this duty, all bottling companies in Mexico that were using HFCS in their products, switched to usage of cane sugar in their product formulas. In fact, the bottling companies had already switched to sugar since the tax was first announced on January 1, 2002, and almost no HFCS has been sold to soft drink bottlers in Mexico. At this point, it is uncertain what the production estimate will be for CY 2003, as this will depend on the outcome of the NAFTA sugar negotiations.

Much of the corn used for HFCS production is imported from the United States under the NAFTA tariff rate quota (TRQ). In CY 2001, the wet-milling industry imported a total of 1,947,743 MT of U.S. corn under the TRQ, of which approximately 770,000 MT were destined to HFCS production for the soft drink, bakery, food processing, fruit and canning, and yogurt industries. Since no HFCS is being used by the soft drink industry, corn imports under the TRQ destined for HFCS production for CY 2002 are expected to diminish by half. Mexican production of HFCS is not published by official sources and companies treat it as confidential information.

SUGAR AND HFCS CONSUMPTION

Sugar consumption for MY 2002/03 was revised upward to 4.85 MMT from previous estimates, due to a greater demand from the soft drink industry. This forecast is based on the assumption that the NAFTA negotiations on sugar between Mexico and the U.S. do not reach an agreement, and the 20 percent duty on soft drinks and beverages that contain HFCS remains in place. In the event an agreement is reached, sugar consumption will surely decrease. Sugar consumption for MY 2001/02 was also revised upward because sugar use increased in the soft drink bottling industry. This industry is estimating sugar consumption at approximately 1.4 to 1.5 MMT for CY 2002. Sources indicate that refined sugar consumption by the soft drink industry for CY 2001 was approximately 1.2 to 1.3 MMT. Sugar consumption for MY 2000/01 remains unchanged.

HFCS consumption for CY 2002 is expected to decrease because of no demand from the soft drink industry, which canceled all HFCS purchases, due to the 20 percent tax mentioned above. Therefore, consumption for CY 2002 will decrease by at least 250,000 MT to 300,000 MT of HFCS, leaving a total consumption of about 300,000 MT. The remaining HFCS is expected to be used by the bakery, food processing, fruit and juice canning, and yogurt industries. This amount should not be affected by the controversy surrounding the tax on HFCS-containing beverages. At this point, it is uncertain what the domestic consumption for HFCS will be for CY 2003, as this will depend on the outcome of the NAFTA sugar negotiations, but there will be at least 300,000 MT used by the bakery and food industries.

According to industry information, HFCS consumption for CY 2001 was about 600,000 MT.

SUGAR TRADE

The sugar export forecast for MY 2002/03 was revised downward from previous estimates based on the assumption of greater demand from the soft drink industry. This outlook, however, will be tempered by the final results of sugar production, the U.S.-Mexico NAFTA sugar negotiations, and substitution by alternative domestic and imported sweeteners. Sugar exports for MY 2001/02 were also revised downward from previous estimates, due to a higher domestic demand for sugar from the soft drink industry. As domestic sugar prices are higher than international prices, this presents the Mexican sugar industry with a double-edged sword: exports are necessary to reduce storage costs, but are unprofitable due to low international prices. Sugar exports for MY 2000/01 were revised downward based on recent trade data, due to the fact that some sugar mills falsely reported exports when in reality the sugar was left in the country. The Mexican industry has been exporting excess sugar to the world market on a per mill-quota basis to prevent downturns in domestic sugar prices.

The United States and the Mexican governments are continuing negotiations on the final amount of duty-free sugar to be shipped to the U.S. However, as of the writing of this report, the NAFTA sugar allocation for Fiscal Year 2003 has not been announced. The FY 2002 sugar quota for Mexico was 148,000 MT. The Mexican negotiating position has been "one kilogram of sugar for one of HFCS", meaning that whatever duty-free sugar is allowed in the U.S., the same amount of U.S. HFCS will be allowed into Mexico.

In its National Sugar Policy announcement (see report MX 2031), the GOM outlined a series of short- and medium-term measures to restructure the sugar industry. One of the short-term measures is the establishment of a sugar export cooperative association comprised of all privately-held and government-owned sugar mills. According to industry sources, this entity has already been created and will be ready to oversee exports for MY 2002/03. The composition of this cooperative is 57 percent private sector and 43 percent government. This association will be the sole entity authorized to export sugar.

According to industry, some sugar will continue to be exported under the Mexican re-export program (PITEX). This program allows domestically-produced sugar to be sold as raw material for processing in Mexico to food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within three months and then must export the final processed product. Given this process, the government 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 by avoiding 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. Sources indicate that approximately 120,000 to 130,000 MT of sugar are expected to be exported under this program for MY 2001/02.

According to the industry, sugar imports for MY 2001/02 and 2002/03 will be almost nil, as in MY 2000/01, given the current high sugar production. The import tariff for third countries is US$0.3958 per kg. Despite this fact, some sugar was imported from Guatemala during MY 2001/02 without paying the corresponding duties. The industry indicated that this was done illegally, and the government has already demanded the Secretariat of Treasury to stop this irregularity.

HFCS TRADE

Due to the imposition of the 20 percent duty on HFCS-containing soft drinks and beverages, HFCS imports for CY 2002 are forecast to be way under the 286,980 MT imported during CY 2001. Additionally, as a result of an April 2002 announcement by the Secretariat of Economy (SE), such imports will be subject to a TRQ, limited, in MY 2001/02, to 148,000 mt at a 1.5% duty, an amount equal to Mexico's current U.S. sugar quota. The MY 2001/02 out-of-quota amount will be subject to a 210 percent duty (see MX 2059). Therefore, it is estimated that imports will be, at the most, 148,000 MT for CY 2002. Quota amounts will be regulated via an import permitting system that SE had previously announced on December 31, 2001 and which has been in effect since January 15, 2002 (see MX 2013). It is uncertain what the scenario for 2003 will be for HFCS trade, as the TRQ will depend on the U.S.-Mexico NAFTA sugar negotiations. For CY 2003, in-quota duties will be zero for U.S. imported HFCS.

In other related recent developments, on May 20, 2002, SE lifted the antidumping duties on U.S. HFCS to comply with the NAFTA Binational Panel's final decision of April 15, 2002 (see report MX 2075). Prior to this, U.S. HFCS imports had been subject, for the past four years, to compensatory duties of up to US$100.60/MT on HFCS-42 and US$175.50/MT on HFCS-55.

STOCKS

Sugar ending stocks for MY 2002/03 were revised downward based on greater demand of sugar from the soft drink industry. However, if a sugar agreement is reached between Mexico and the U.S., ending stocks could be larger. Sugar ending stocks for MY 2001/02 were revised downward based also on a larger demand from the soft drink industry. Stocks for MY 2000/01 were revised upward because some sugar exports were not shipped as expected.

SECTION II. STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

PSD Table						
Country	Mexico					
Commodity	Centrifugal Sugar			(1000 MT)		
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	11/2000		11/2001		11/2002	
Beginning Stocks	630	630	1005	1064	933	865
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5223	5223	5393	5169	5305	5000
TOTAL Sugar Production	5223	5223	5393	5169	5305	5000
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	5853	**5853**	6398	**6233**	6238	**5865**
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	305	246	850	568	850	400
TOTAL EXPORTS	305	246	850	568	850	400
Human Dom. Consumption	4543	4543	4615	4800	4615	4859
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	4543	4543	4615	4800	4615	4859
Ending Stocks	1005	1064	933	865	773	606
TOTAL DISTRIBUTION	5853	**5853**	6398	**6233**	6238	**5865**

SUGARCANE FOR CENTRIFUGAL SUGAR

PSD Table						
Country	**Mexico**					
Commodity	**Sugar Cane for Centrifugal**			**(1000 HA) (1000 MT)**		
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	11/2000		11/2001		11/2002	
Area Planted	700	700	700	700	700	700
Area Harvested	605	605	600	609	605	605
Production	44477	44477	44000	42904	44500	41600
TOTAL SUPPLY	44477	**44477**	44000	**42904**	44500	**41600**
Utilization for Sugar	44477	44477	44000	42904	44500	41600
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	44477	**44477**	44000	**42904**	44500	**41600**

SUGAR PRICES

SUGAR PRICES Units: 50 Kg. Bulk / Pesos						
Month	Standard		Change %	Refined		Change %
	2001	2002		2001	2002	
January	248.89	245.78	(1.25)	276.98	276.80	(0.06)
February	234.25	237.75	1.48	274.56	274.77	0.08
March	208.67	234.98	12.61	266.54	270.04	1.31
April	189.46	233.02	22.99	256.03	267.18	4.35
May	185.45	234.61	26.51	250.26	266.94	6.67
June	218.39	232.78	6.59	256.90	274.20	6.73
July	222.00	241.68	8.86	260.85	281.03	7.74
August	219.07	244.15	11.45	261.87	289.64	10.60
September	249.51	243.67*	(2.34)	276.33	290.91*	5.28
October	249.34	N/A	N/A	279.72	N/A	N/A
November	240.23	N/A	N/A	277.48	N/A	N/A
December	233.55	N/A	N/A	274.21	N/A	N/A

SOURCE:. FIDEICOMISO PARA EL MERCADO DE AZÚCAR "FORMA"-SAGARPA
2001 AVG. EXCHANGE RATE US$1.00 = $9. 35ESOS
SEPTEMBER 20, 2002 EXCHANGE RATE US$1.00 = $10.06 PESOS
* As of September 20, 2002.

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: SECRETARY OF ECONOMY

1/ Note: The sugar importer must have a written statement from the exporter that certifies that the product has not benefitted from the U.S. Sugar Reexport 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.

HFCS TARIFFS

TARIFF FOR IMPORTED HFCS PRODUCTS UNDER NAFTA	
Year	***Ad Valorem* %**
1994	13.5
1995	12.0
1996	10.5
1997	9.0
1998	7.5
1999	6.0
2000	4.5
2001	3.0
2002	1.5
2003	0.0
H.S. 1702 CONSOLIDATES THE FOLLOWING SUBHEADINGS: 40.99, 50.01, 60.01, 60.02 & 60.99.	