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Mexico

Sugar Annual

Sugar and Sugar Cane Production Forecast Stable while HFCS Consumption Grows

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Report Highlights:

Sugar, sugar cane, and high fructose corn syrup (HFCS) production for marketing year (MY)2011/12 is expected to be similar to MY2010/11 volumes. Cane grower reference prices are significantly higher (55 percent) for cane received in MY2010/11 than MY2009/10, but this has not seemed to influence production levels. HFCS imports continue growing and substituting for usage of domestic sugar. As a result, Mexico should continue exporting sugar to other markets.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Corn

Production:**PRODUCTION FOR MY2011/12 FORECAST SIMILAR TO MY2010/11**

The sugar industry expects sugar production levels for MY2011/12 (Oct./Sept.) to be similar to those in MY2010/11. Although there is no official Mexican forecast for sugar production for MY2011/12, the Post/New forecast for sugar production is estimated at 5.65 million metric tons - raw value (MMT-RV). Sugar production has been affected negatively for the past two marketing years due to weather-related problems that delayed harvests or lowered yields. Final production for MY2011/12 will depend on timely maintenance of sugar mills, appropriate cultivation practices, weather throughout the growing season, and harvesting conditions.

The Post/New estimate for MY2010/11 sugar production is 5.61 MMT-RV. This is based on the second official Mexican government estimate ([March 2011](#)) for sugar production and is lower than the initial Mexican government estimate ([November 2010](#)) of 5.69 MMT-RV. Heavy rains and flooding in Veracruz caused by Hurricane Karl in mid-September 2010 damaged production areas, but fields were not as severely damaged as initially estimated. The industry estimates overall cane yields at 67.3 MT/hectare (ha) which is lower than the previously estimated yields of 71.2 MT/ha. Mill yield estimates, however, are better than previous years and are expected to average 11.68 percent compared to mill yields of 11.13 percent in MY2009/10.

The Post/New sugar production estimate for MY2009/10 remains at 5.1 MMT-RV. This estimate accounts for late rainfall that delayed harvest (thereby shortening the harvest season) and is based on official information. The production volume, additionally, was lower than recent years as sources report that the sugar cane had lower sucrose content.

There are currently 57 sugar mills across 15 of Mexico's 32 states. During MY2010/11, three mills could not operate, however, the cane was diverted to other mills to crush, and overall sugar production was not affected. The three sugar mills that did not operate were Independencia, Concepcion, and San Gabriel in the state of Veracruz. As of April 14, seven sugar mills have ended their MY2010/11 operations.

Growers are organized within two major unions that represent over 95 percent of all cane growers. These unions are the National Sugarcane Growers (affiliated with the CNC) and the National Association of Sugarcane Growers (CNPR). All growers operate with contracts to deliver their cane to the mills. In exchange, they receive technical support and agrochemicals from the mills to grow cane. The industry has been fostering better working relationships between mills and sugarcane grower associations to better integrate overall sugar production.

SUGAR WHOLESALE PRICES LOWER THAN ONE YEAR AGO

Sugar prices continued to decrease in 2010 due to the sugar TRQ imports opened by the government. (See 2010 GAIN Report [MX0068](#) *Sugar, Sugar Cane, and HFCS Situation* and the price tables at the end of this report).

SUGAR CANE PRODUCTION EXPECTED TO REMAIN FLAT

The Post/New sugar cane production forecast for MY2011/12 is 45,500 MMT. The Post/New MY2010/11 estimate is 45,450 MMT. This is based on the second official estimate and is lower than Mexico's first official forecast of 47,989 MMT. Sources indicate that weather-related problems have lowered production. Sugar cane production for MY2009/10 was revised upward from previous estimates based on official data to 43,370 MMT.

As previously reported, virtually all sugar cane goes to the production of centrifugal sugar. Mills operate between November and May. Although there is no official Mexican MY2011/12 forecast for sugar cane planted area, the Post/New forecast is 740,000 ha. Area expansion will depend on weather conditions, production cost changes, and the level of continued investment by sugar mills. Planted area for MY2010/11 remains unchanged at 740,000 ha, but harvested area was revised upward to 675,071 ha according to the second official Mexican government estimate. The Post/New MY2009/10 planted area estimate was revised upward slightly to 733,000 ha, but harvested area remains unchanged based on official information.

SUGAR CANE REFERENCE PRICES SPIKE FROM MY2009/10

According to Article 58 of the Law of Sustainable Development for Sugar Cane, approximately 57 percent of the reference price for standard sugar is paid to growers for their sugar cane. The reference price is the price used to calculate sugar cane payments for a marketing year. As announced by CONADESUCA on October 29, 2010, the reference price for the MY2010/11 crop is 10,222.26 pesos per MT (U.S. \$819.74/MT at the exchange rate of 12.47 pesos per dollar). This is 55 percent greater than MY2009/10 reference price of 6,579.21 pesos per MT (U.S. \$495.42/MT). The reference price used for MY2010/11 crop will be modified later in the year to pay for the liquidation of sugar cane as well as for final payment adjustments. (See 2010 GAIN Report [MX0081](#) *2010 Sugar Reference Price*).

HFCS PRODUCTION CAPACITY REMAINS STABLE

Despite higher global corn prices, the industry believes it will continue producing HFCS at almost the same levels as in the previous year. According to industry sources, HFCS production in MY2011/12 and MY2010/11 is forecast to be similar to MY2009/10 levels. The Post/New HFCS production forecast for MY2011/12 and MY2010/11 is estimated at 464,000 MT dry basis. Industry members indicate that there is no additional HFCS manufacturing capacity being built or expanded. Sources report that it is easier and financially better to import the remainder of the HFCS demand. HFCS production estimates for MY2009/10 remained at 463,000 MT dry basis. HFCS production increases in MY 2009/10 from previous years are attributed to higher domestic sugar prices.

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 two 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 near future (see GAIN Report [MX1017](#) *February Freeze Impacts Marketing Year 2010/11 Crop Production Forecast*). Since grain trade has been fully liberalized under NAFTA, U.S. corn can be imported by the industry at any time.

The Government of Mexico, however, continues to encourage forward contract purchases between Mexican farmers and yellow corn buyers in an attempt to influence production patterns. Sources indicate, however, that Mexican farmers will continue to plant white corn due to resistance to change, lower yields of yellow corn compared to white, and difficulty accessing quality seed. According to industry sources, the February 2011 freeze that affected white corn plantings in Sonora and Sinaloa did not affect the industry as yellow corn is planted in other areas (e.g., the states of Chihuahua and Jalisco).

Consumption:

SUGAR AND HFCS CONSUMPTION SUBSTITUTION REVEALS HFCS GAINING MOMENTUM

The Post/New forecast for domestic sugar consumption for MY2011/12 is 4.46 MMT-RV. This is a slight increase, as opposed to a large increase, over MY 2010/11 levels due to greater substitution between sugar and HFCS. The Post/New domestic sugar consumption estimate for MY2010/11 is expected to be 4.45 MMT-RV. This is lower than the first official Mexican government estimate (Nov/2010) of 4.65 MMT-RV as soft-drink bottlers are exhibiting greater demand for HFCS. The Post/New estimate for MY2010/11, however, is greater than USDA/Official estimates. Sugar consumption for MY 2009/10 remains unchanged.

HFCS consumption for MY2011/12 is forecast to be only slightly higher than MY2010/11 consumption as the industry believes that the industry's capacity to substitute for sugar consumption cannot run any faster. The increase in HFCS consumption will depend, however, on domestic sugar and HFCS price trends. HFCS consumption for MY2010/11 is estimated by the industry to be higher than previously expected. The industry estimate for HFCS consumption is between 1.46 to 1.53 MMT-dry basis. HFCS consumption increased almost 200 percent in MY 2009/10 to 1.425 MMT/dry basis compared to the previous marketing year as high sugar prices compelled the soft-drink industry to use more HFCS in its formulations.

Trade:

MEXICAN SUGAR EXPORTS WILL REMAIN STRONG

The Post/New sugar export forecast for MY2011/12 is 1.1 MMT-RV. The MY2010/11 Post/New sugar export estimate is increased to 1.37 MMT-RV and is greater than USDA/Official estimates. This is likely due to greater domestic HFCS usage that has reduced sugar consumption and made it available for export. The final export figure will depend on final marketing year production and the extent of substitution between sugar and alternative domestic and imported sweeteners. Sugar exports for MY2009/10 were revised downward from previous estimates to 732,000 MT from USDA/Official estimates reflecting strong international demand.

The Post/New sugar import forecast for MY 2011/12¹ is estimated at 300,000 MT-RV. A large portion could be used to cover the needs of IMMEX industries. The MY2010/11 sugar import estimate was revised upward from the previous estimate to 290,000 MT-RV. This estimate includes a September 22, 2010, announcement by the Secretariat of Economy (SE) that a tariff-rate quota (TRQ) for 100,000 MT of sugar had been approved for import due to low sugar inventories that were estimated to be inadequate

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.

to cover demand during the months of September through November 2010 (See Report [MX0071 Mexico Formally Announces 100,000 MT Sugar TRQ](#)). The industry, however, believes the complete TRQ will not be filled as only 65,000 MT were filled as of April 14, 2011. Imports for MY 2009/10 were revised upward.

Sugar use under the “other disappearance” category is mainly for the Mexican re-export program (IMMEX)². MY2010/11 sugar use for IMMEX industries is estimated at 300,000 MT-RV of which 200,000 MT-RV could be imported. According to industry sources, IMMEX total use of sugar for MY2009/10 was 300,000 MT-RV. The IMMEX program allows sugar to be sold to Mexican food manufacturers as a raw material for further processing. These food manufacturers must then process the sugar within six months of the date of purchase (see GAIN Report [MX8035 Modifications to the Mexican Sugar Re-Export Program](#)) and export the processed product. Although this report does not consider these products when calculating sugar exports, the Government of Mexico classifies the sugar containing products sold under the IMMEX program as exports of sugar.

HFCS IMPORTS SURGING FOR PAST FEW YEARS BUT WAITING FOR GREATER INDUSTRY CONVERSION

The Post/New HFCS import forecast for MY2011/12 is expected to be similar to MY2010/11 as long as the soft-drink bottling industry benefits from the difference in price from sugar to HFCS and the exchange rate with the dollar favors imported HFCS. The November 2010 official forecast of HFCS imports for MY2010/11 was 983,595 MT/dry basis. However, recent official estimates consider forecast HFCS imports between the range of 1.1 to 1.2 MMT dry basis. It is important to note that HFCS prices in 2011 are higher than 2010 and this could affect imports.

Stocks:

STOCKS REMAIN NEAR TWO MONTHS USAGE

The Post/New sugar ending stock estimate for MY2011/12 is 851 MT-RV. This is approximately two months of domestic consumption and includes IMMEX sugar use. Sugar ending stocks for MY2010/11 are likely to end at 761,000 MT-RV as more sugar exports are expected. Stocks for MY 2009/10 remain unchanged at 973,000 MT-RV

Policy:

POLICY CHANGES BALANCING NEEDS OF GROWERS, MILLS, AND CONSUMERS

The SE has allowed sugar to be imported under TRQs in order to bring greater stability to the domestic food market. The sugar industry does not agree with this policy as sugar imports are brought into the country at the peak of the season. The Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) has reported to local news that it is more desirable to import sugar than to import sugar containing products like sweets, yogurts, and juices that could enter at very cheap prices and displace employment in the food industry.

The Mexican Senate Chamber approved on April 13, 2011, modifications to the Sugar Cane Development Law. These reforms give legal assurances to all cane producers that supply a sugar mill.

² Decree for the Development of the Manufacturing, Maquila and Export Services Industry.

The modifications will require more precise writing of contracts. The modifications permit smaller groups of organized cane producers to integrate into local sugar production committees. The articles of the Sugar Cane Development Law that were modified are: 34, 42 44, 46, 47, 56 and 125 ([Official Senate Gazette No.248, April 13, 2011](#)).

**Production, Supply and Demand Data Statistics:
STATISTICAL TABLES**

Sugarcane Marketing Year Oct./Sept.	Standard Sugar Price in MT/Peso	Standard Sugar Price in MT/Dollar	57 % Payment for Growers in Dollars	Exchange Rate in Pesos 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
2010/11	10,222.26	\$819.74	\$467.25	12.47

Table 2. Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms - Bulk

Month	Standard			Refined		
	2010	2011	Percent Change	2010	2011	Percent Change
January	552.25	505.63	(8.44)	647.71	569.59	(12.06)
February	626.75	497.38	(20.64)	679.17	566.67	(16.56)
March	567.83	N/A	N/A	676.68	N/A	N/A
April	553.75	N/A	N/A	670.73	N/A	N/A
May	512.92	N/A	N/A	639.21	N/A	N/A
June	482.00	N/A	N/A	605.80	N/A	N/A
July	493.75	N/A	N/A	591.17	N/A	N/A
August	503.13	N/A	N/A	584.20	N/A	N/A
September	561.75	N/A	N/A	590.83	N/A	N/A

October	542.81	N/A	N/A	588.92	N/A	N/A
November	526.50	N/A	N/A	581.61	N/A	N/A
December	493.13	N/A	N/A	564.17	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA

http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?

*Through March 2011

Table 3. Mexico: Monthly Exchange Rate Averages for 2007-2011 in Mexican Pesos per U.S. \$1.00

Month	2008	2009	2010	2011
January	10.91	13.15	12.80	12.13
February	10.77	14.55	12.95	12.06
March	10.74	14.71	12.59	N/A
April	10.52	13.41	12.23	N/A
May	10.44	13.19	12.71	N/A
June	10.33	13.47	12.72	N/A
July	10.24	13.36	12.82	N/A
August	10.10	13.00	13.74	N/A
September	10.61	13.41	12.82	N/A
October	12.56	13.24	12.44	N/A
November	12.31	13.12	12.33	N/A
December	13.40	12.85	12.39	N/A
Annual Avg.	11.14	12.33	12.62	12.09

Source: Mexican Federal Register

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

Table 4. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal Mexico	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	624	624	973	973		761
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	5,115	5,115	5,450	5,618		5,650
Total Sugar Production	5,115	5,115	5,450	5,618		5,650
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	861	881	225	290		300
Total Imports	861	881	225	290		300
Total Supply	6,600	6,620	6,648	6,881		6,711
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	773	732	938	1,370		1,100
Total Exports	773	732	938	1,370		1,100

Human Dom. Consumption	4,615	4,615	4,435	4,450		4,460
Other Disappearance	239	300	300	300		300
Total Use	4,854	4,915	4,735	4,750		4,760
Ending Stocks	973	973	975	761		851
Total Distribution	6,600	6,620	6,648	6,881		6,711
1000 MT						

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

Sugar Cane for Centrifugal Mexico	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Nov 2009		Market Year Begin: Nov 2010		Market Year Begin: Nov 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	728	733	740	740		740
Area Harvested	659	659	663	675		675
Production	43,317	43,370	44,000	45,450		45,500
Total Supply	43,317	43,370	44,000	45,450		45,500
Utilization for Sugar	43,317	43,370	44,000	45,450		45,500
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	43,317	43,370	44,000	45,450		45,500
1000 HA, 1000 MT						

Author Defined:

ETHANOL PRODUCTION NON-EXISTENT DUE TO HIGH SUGAR PRICES

There are no changes in the ethanol production situation in Mexico since [MX0068](#) *Sugar, Sugar Cane and HFCS Situation* was published in October 2010.

The Biofuels Law, which first passed the Mexican Congress on April 26, 2007, and was amended in October 2007, was published in the Diario Oficial 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 neither feasible nor profitable, however, 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 ethanol production per ton of cane is high compared to that in countries like Brazil, where sugar cane is sold for between \$15 and \$18 dollars per ton (in Mexico, sugar cane is about \$34 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, however, necessary government policies have not been implemented and Mexico’s investments in ethanol have focused on corn-based production.

INFORMATION RESOURCES

The National Committee for the Sugar Cane Agroindustry ([CONADESUCA](#))

The National Chamber for the Sugar and Alcohol Industries ([CNIAA](#))

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work
<http://www.youtube.com/user/ATOMexicoCity>

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX0081	Sugar Reference Price	11/9/2010
MX0071	Mexico Formally Announces 100K MT Sugar TRQ	10/18/2010
MX0069	TRQ for Sugar Expected	10/4/2010
MX0068	Sugar, Sugar Cane, and HFCS Situation	10/4/2010
MX0057	Biofuels Interest in Mexico Growing	7/12/2010
MX0040	Economia Extends Sugar TRQs	6/21/2010
MX0023	Mexican Sweeteners Production Expected to Increase	4/14/2010

Useful Mexican Web Sites: Mexico's equivalent of the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, the equivalent of the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx, and the equivalent of the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the reader's convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.