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Mexico

Sugar Semi-annual

Sugar Production and Trade Seen Slightly Lower

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Report Highlights:
Sugar production for marketing year 2014/15 (Oct/Sept) is forecast to be about 6.3 MMT-RV. Sugar production for MY 2013/14 was revised downward to 6.382 MMT-RV due to adverse weather, including heavy rains. The sugar export forecast for MY 2014/15 was revised downward to 1.7 MMT-RV. Exports for MY 2013/14 are still expected at 2.543 MMT-RV. The HFCS import forecast for MY 2014/15 is expected to be at 1.0 MMT dry basis similar to MY 2013/14, as sugar prices have continued to remain low. On August 26, 2014, the Department of Commerce announced its affirmative preliminary determination in the anti-dumping and countervailing duties (CVD) investigation of imports of sugar from Mexico.

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Commodities:
Sugar, Centrifugal
Sugar Cane for Centrifugal

PRODUCTION
Sugar

The Mexican sugar industry expects sugar production for marketing year (MY) 2014/15 (Oct/Sept) to be close to MY 2013/14 sugar production, as long as weather is good. However, the forecasted "El Nino" event could affect production somewhat. According to recent reports, renewal of cane fields continues. Final production will depend on timely maintenance of sugar mills, appropriate cultivation practices, weather throughout the growing season, and harvest conditions. There is not yet an official Mexican forecast for sugar production for MY 2014/15, however, the Post/New forecast was revised downward from previous estimates to 6.3 million metric tons –raw value (MMT-RV) based on private source preliminary estimates. Sources believe sugar production will range from of 6.04 to 6.67 MMT-RV. According to the National Committee for the Sustainable Development of Sugar Cane (CONADESUCA) during the past MY 2013/14 about 3 million tons of sugar cane had to be left unharvested in the field due to untimely rainfall. This amount could be used for MY 2014/15 and produce about 200,000 MT of sugar depending on cane conditions and yields.

According to Final Report # 36 of July 12, 2014, CONADESUCA confirmed that the sugar production season for MY 2013/14 had ended as the 52 mills that worked during this season concluded operations. Post/New production data was revised downward from previous estimates to 6.382 MMT-RV (6.021 MMT-Actual Weight) based on official information. According to reports from CONADESUCA, about 19 mills in the states of Jalisco, San Luis Potosi, Tamaulipas, Nayarit, Quintana Roo, Colima, and Tabasco underperformed with respect to the first estimate of sugar production, due to adverse weather including rain. The First estimate of sugar production announced in November 2013 was at 7.0 MMT-RV (6.6 MMT-Actual Weight). By March 2014, a Second estimate was published, adjusting production downward, based on weather issues, to 6.8 MMT-RV (6.4 MMT-Actual Weight). Mill yield estimates for MY 2013/14 were 11.08 percent, compared to higher mill yields of 11.35 percent in MY 2012/13. The Post/New sugar production estimate for MY 2012/13 remains unchanged.

Sugar Cane

There is still no official Mexican forecast for sugar cane production for MY 2014/15; however, the Post/New forecast for commercial planted and harvested area has been revised upward from previous estimates based on past performance and information from CONADESUCA.

Mills and growers have no incentive at this time, to expand production acreage. Weather issues and uncertainty on domestic and international sugar prices as well as uncertain export volumes are discouraging any expansion. The Post/New estimates for planted and harvested area for industrialized sugar cane for MY 2013/14 were revised upward from previous estimates based on official information. Cane yields for MY 2013/14 were at 68.71 MT/Ha, compared to higher yields of 78.74 MT/Ha in MY 2012/13.

A total of 52 mills were actively working during MY 2013/14, across 15 of Mexico's 32 states. Two mills have not been in operation during the last several cycles due to diverse management issues, La Concepcion and Independencia in the state of Veracruz. The cane that would have gone to these mills, however, has been diverted to other mills for processing, so overall sugar production has not been

affected. Three other mills did not operate for MY 2013/14 -Avance Regional (La Primavera) in Sinaloa, Nuevo San Francisco and San Gabriel in Veracruz. As previously reported, virtually all sugar cane goes to the production of centrifugal sugar. Mills operate between November and June to coincide with the cane harvest.

The constant decline in domestic sugar prices affected sugarcane growers as cane payments are tied to the standard sugar price, which is used as a reference price to determine sugarcane prices for the marketing year. The higher sugar production of MY 2012/13 resulted in a saturated domestic market, lowering sugar prices, which in turn lowered payment to cane growers.

HFCS

The Mexican high fructose corn syrup (HFCS) industry believes it will continue producing HFCS for MY 2014/15 at almost the same levels as in the previous marketing year. CONADESUCA estimates HFCS domestic production for MY 2013/14 was 500,000 MT dry basis and MY 2012/13 production was 494,124 MT dry basis.

These volumes are almost the maximum capacity of the industry. Industry members indicate that there is no additional HFCS manufacturing capacity being built or expanded in Mexico. Sources report that as long as HFCS prices remain competitive, it is easier and more financially prudent to import the remainder of HFCS demand. However, due to lower sugar prices prevalent in the domestic market, the bottling industry increased sugar consumption for CY 2014, at the expense of HFCS consumption.

The Mexican HFCS industry produces fructose 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.

SUGAR AND HFCS CONSUMPTION

Assuming current pricing trends for sugar, the sugar industry might expect sugar consumption to grow according to population growth rate for MY 2014/15. However, due to the recent developments on the anti-dumping countervailing duties (CVD) imposed on Mexico (See Policy Section) consumption is hard to forecast. If exports to the United States drop, more sugar might be available in the domestic market, unless this sugar gets exported to another world destination. Based on different sources, the Post/New domestic sugar consumption estimate for MY 2014/15 was revised downward from previous estimates, still reflecting about 1 percent growth from MY 2013/14 consumption.

The Post domestic sugar consumption estimate for MY 2013/14 was revised downward from previous estimates reflecting lower consumption of sugar, mainly by the soda-drink companies. As noted above, although substitution between HFCS and sugar increased, this change was not sufficient to grow consumption as much as previously forecast. The special tax imposed on sweetened soda drinks (See policy section) of $1.00 peso/liter (US $0.076/liter) reduced oda drink consumption, mainly in the first semester of 2014, until the consumer got used to the increase in price. Substitution between sugar and high fructose (HFCS) will likely result in a 13.6 percent decrease in HFCS consumption in MY 2013/14

as sugar prices were lower. The Post/New domestic sugar consumption estimate for MY 2012/13 remains unchanged.

Consumption of HFCS for MY 2013/14 is expected to be 1.3 MMT dry basis, lower than MY 2012/13 consumption of 1.5 MMT dry basis. Industry indicates that lower sugar prices led the soda-drink industry to substitute more sugar for HFCS, thus reducing HFCS consumption in their products. This volume of HFCS represents about 24 percent of total domestic sweeteners consumption. However, the HFCS industry expects that for MY 2014/2015, consumption of HFCS will recover. Still, there is uncertainty on how consumption of HFCS will behave due to the CVD imposed on sugar exports.

TRADE
Sugar

The sugar sector remains concerned with the CVD imposed on Mexican sugar exports, as there is uncertainty as to whether or not Mexican exports to the United States will drop. Because of this situation, the industry will have to explore the possibility of increasing exports to the rest of the world. However, this last option means lower profits as prices tend to be lower in the international market. Since there are no official data yet on exports for MY 2014/15, based on different sources, Post/New sugar export forecast was revised downward to 1.7 MMT-RV from previous estimates, due to expected lower sugar production. This number is tentative and will tend to change depending on production and the extent of substitution between sugar and alternative domestic and imported sweeteners (HFCS), and the final negotiations on the CVD.

The Post/New sugar export estimate for MY 2013/14 remains unchanged from previous estimates. Through September 10, 2014, the Sugar Chamber in Mexico indicated that about 1.7 MMT-RV of sugar has been exported under NAFTA to the United States and about 700,000 MT-RV have been exported to the rest of the world. Due to the CVD imposed on sugar exports, very little exports if any, are expected during the rest of the marketing year to the United States. Post/New sugar export estimates for MY 2012/13 were revised upward from previous estimates based on CONADESUCA's information.

The Post/New sugar import forecast for MY 2014/15 remains 240,000 MT-RV, as domestic supplies are expected to be sufficient to cover demand. Sugar import estimates for MY 2012/13 and MY 2013/14 were both revised upward to 240,000 MT-RV. A large portion of these imports will likely be used to cover the needs of the Mexican Sugar Re-export Program industries (IMMEX). IMMEX sugar users will likely substitute more domestic sugar for imported sugar, compared to previous years when imports for IMMEX were larger.

Sugar use under the "other disappearance" category is mainly for the IMMEX program. The Post/New forecast for MY 2014/15 for sugar use under IMMEX was revised downward to 370,000 MT-RV following the trend of MY 2013/14. According to sources, the same industries will be using imported sugar for the processing of their products. The Post/New estimates for MY 2012/13 and MY 2013/14 for sugar use under IMMEX were revised downward from previous estimates as demand for sugar from the IMMEX industry has been lower. 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 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

The HFCS import forecast for MY 2014/15 is expected to be similar to MY 2013/14 imports, as long as sugar prices continue to be low. According to CONADESUCA, imports of HFCS for MY 2013/14 are estimated at 1.0 MMT dry basis. Imports of HFCS slowed down during the first semester of 2014 because of lower consumption of fructose by soda drink companies, related to higher prices for soda drinks resulting from the special tax on calorically sweetened drinks (See Policy Section). Imports for MY 2012/13 were estimated at 1.1 MMT dry basis.

STOCKS

The Post/New sugar ending stock forecast for MY 2014/15 was revised downward to 887,000 MT-RV. However, sugar prices and the level of exports will determine the final data. As a result of lower production than expected and strong exports, Post/New final stocks for MY 13/14 are likely to end at 857,000 MT-RV. Sugar ending stocks for MY 2012/13 remain unchanged from previous estimates.

POLICY

Tax Reform -On September 8, 2013, a Tax Reform Initiative was proposed to Congress whereby, among other subjects, a special tax on sweetened soda drinks was being proposed to help combat obesity and the incidence of being overweight in Mexico. The tax was implemented in January 2014 and was set at $1.00 peso/liter (US $0.076/liter). Sweetened soda drinks already have a value added tax of 16 percent. This initiative also affects juices, nectars, sweetened coffees and teas, and energy drinks. (See additional information on Report MX 3309 Conditions of Proposed 2014 Value Added Tax in Mexico**).**

Anti-Dumping and Countervailing Duties Petition against Mexico -The American Sugar Alliance filed an anti-dumping case against Mexico on March 28, 2014, asking the U.S. government to take corrective action against Mexico's sugar industry for exporting subsidized sugar into the United States market and harming U.S. growers and taxpayers. The anti-dumping and countervailing duty (CVD) petitions filed with the U.S. International Trade Commission and Department of Commerce allege that the Mexican industry has shipped sugar to the United States at dumping margins of 45 percent or more and has received substantial subsidies from Mexico's federal and state governments. On August 26, 2014, the Department of Commerce announced its affirmative preliminary determination in the CVD investigation of imports of sugar from Mexico. The Department of Commerce preliminarily determined that producers/exporters in Mexico received subsidies ranging from 2.99 percent to 17.01 percent. Both governments are negotiating a solution to this issue. Domestic interests demand to have CVD imposed on other products from the United States, especially HFCS, as retaliation. Due to these issues, consumption and trade estimates will be harder to forecast.

ETHANOL PRODUCTION

There have been no changes in the ethanol production situation in Mexico since the Biofuels Law was published in the Diario Oficial (Official Gazette) on February 1, 2008. 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 feasible; however, presently the options are to sell to for pharmaceutical use or for the alcohol drinks industry. The use of ethanol for the biofuel industry is still not clear. There are 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 to develop the fuel distribution market. Some sugar mills have the capacity to produce ethanol for fuel usage and are evaluating the possibility of producing it at large scale, but there is still not an appropriate buyer. The fact that Pemex has a monopoly on retail gasoline stations (a situation that recently changed due to Mexico's significant energy reforms) means that Pemex is the only appropriate buyer and to date, has not taken concrete steps towards incorporating ethanol into Mexico's transportation fuel mix. Recently, however, local press has reported that PEMEX is preparing to issue a third bid by October/November to purchase ethanol for blending into gasoline on a trial basis. PEMEX' previous two bids were considered too low by local observers and contracts were not signed. Towards the end of last year's sugar cane harvest cycle, a couple of mills in the state of Veracruz produced ethanol on a trial basis in relatively large volumes and contracted with a private investor to install a 100% ethanol distribution point (gas station) outside of Veracruz city. This project required special permission, given the above mentioned monopoly situation, and received support from the state's biofuels promotion agency. Drivers arrived at the station with some percentage of regular gas in the tank, and self-mixed at their own discretion by topping off the tank with pure ethanol. Sales were said to be brisk and user reviews positive. Due to limited supplies of ethanol, the station remained open for four to five weeks.

STATISTICAL TABLES

Table 1. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal Mexico	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1,024	1,024	1,548	1,548	1,004	857
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	7,393	7,393	6,731	6,382	6,890	6,360
Total Sugar Production	7,393	7,393	6,731	6,382	6,890	6,360
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	230	240	239	240	239	240
Total Imports	230	240	239	240	239	240
Total Supply	8,647	8,657	8,518	8,170	8,133	7,457
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	2,090	2,157	2,543	2,543	2,158	1,700
Total Exports	2,090	2,157	2,543	2,543	2,158	1,700
Human Dom. Consumption	4,544	4,544	4,564	4,400	4,564	4,500
Other Disappearance	465	408	407	370	407	370
Total Use	5,009	4,952	4,971	4,770	4,971	4,870
Ending Stocks	1,548	1,548	1,004	857	1,004	887
Total Distribution	8,647	8,657	8,518	8,170	8,133	7,457
1000 MT						

Table 2. Mexico: Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal Mexico	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Nov 2012		Market Year Begin: Nov 2013		Market Year Begin: Nov 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	833	833	835	836	840	836
Area Harvested	780	780	819	790	820	790
Production	61,438	61,438	57,000	54,329	57,500	56,000
Total Supply	61,438	61,438	57,000	54,329	57,500	56,000
Utilization for Sugar	61,438	61,438	57,000	54,329	57,500	56,000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	61,438	61,438	57,000	54,329	57,500	56,000
1000 HA, 1000 MT						

Table 3. Mexico: Average Wholesale Sugar Prices in Mexico City (CIF Basis) in Pesos per 50 Kilograms - Bulk

Month	Standard			Refined		
	2013	2014	Percent Change	2013	2014	Percent Change
January	371.63	380.75	2.45	434.17	430.42	(0.86)
February	393.50	345.50	(12.19)	450.83	416.83	(7.54)

March	391.00	343.25	(12.21)	458.75	422.83	(7.82)
April	341.73	337.90	(1.12)	452.40	420.33	(7.08)
May	309.63	362.38	17.03	410.58	426.67	3.91
June	343.13	432.50	26.04	400.17	466.25	16.51
July	337.80	422.70	25.13	393.80	462.85	17.53
August	366.92	438.75	19.57	398.75	470.00	17.86
September	349.25	443.00*	26.84	391.00	470.00*	20.20
October	330.10	N/A	N/A	379.67	N/A	N/A
November	365.50	N/A	N/A	379.59	N/A	N/A
December	399.73	N/A	N/A	435.70	N/A	N/A

Source: Servicio Nacional de Información de Mercados SNIIM-ECONOMIA
http://www.economia-sniim.gob.mx/Sniim-an/e_SelAzu.asp?
*Through 1st Week of September 2014

Table 4. Mexico: Monthly Exchange Rate Averages for 2011-2014
MX Pesos per U.S. $1.00

	2011	2012	2013	2014
January	12.13	13.46	12.71	13.20
February	12.06	12.79	12.69	13.28
March	12.00	12.75	12.54	13.22
April	11.73	13.05	12.21	13.29
May	11.64	13.60	12.95	12.93
June	11.80	13.94	12.94	12.99
July	11.67	13.37	12.77	12.97
August	12.22	13.18	12.89	13.14
September	12.97	12.95	13.08	13.07*
October	13.49	12.88	13.00	
November	13.67	13.08	13.07	
December	13.73	12.86	13.00	
Annual Avg	**12.42**	**13.15**	**12.76**	

*As of 1st week of August 2014
Source: Mexican Federal Register
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico

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

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.

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Report **Number**	**Subject**	**Date Submitted**
MX 4044	Mexico Announces New National Sugarcane Plan	05/30/2014
MX 3033	Sugar Annual Report	04/15/2013