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Sugar

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Report Highlights:
The sugar production forecast for MY 2000 was revised downward at 4.98 MMT, very close to the production estimates for MY 1999. Sugar consumption is forecast to remain flat for MY 2000. HFCS imports grew 17 percent during MY 1999, and MY 2000 HFCS imports are forecast to be very similar despite the countervailing duties that the Mexican government imposed.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

THE ECONOMY

The outlook for the Mexican economy for the remainder of the year 2000 remains bright. Aggregate demand is exceptionally strong and sustaining GDP growth that could average 6.0 percent in 2000. This year's performance will surpass last year's, when GDP rose by 3.7 percent in real terms. The figure for inflation, too, is expected to be lower than the 12.3 percent of 1999 and may decline to about 9.5 percent by the end of the year; the first time the rate will be below 10.0 percent in six years. The Government of Mexico's (GOM) conservative fiscal and monetary policies have helped offset the unusually strong consumer demand and thus prevent the overheating of Mexico's economy. The GOM is conscious of this danger, and is taking steps to ensure that the economy grows at a sustainable rate during the next few years.

Mexico's domestic and foreign trade continues to grow at rates that warrant optimism. Domestic consumption grew by nearly 9.5 percent in real terms during the first half of 2000. Investment rose by about 11.5 percent during this semester relative to the level of a year earlier. This rate could well be sustained during the second half of 2000. Mexico's exports increased about 24.5 percent in nominal terms during the first six months of 2000 relative to those of the same period a year earlier. Imports rose by about 25.0 percent during the same period. In the year that ended in June 2000, Mexico's net international assets increased $4.2 billion to a total of $29.6 billion. The result reflected the benefits to Mexico of high oil prices and a robust U.S. economy. The latter's affect on Mexico is overwhelming, given that the United States remains Mexico's most important export market (87 percent in 1999), its most important source of imports (74 percent), and its primary source of foreign short- and long-term capital.

Mexico's current account deficit is projected to be approximately $19 billion by the end of year 2000. This figure would represent 3.1 percent of expected GDP, 0.2 percentage points higher than the corresponding value in 1999. Forecasters generally agree that inflation, as measured by the consumer price index, may drop to about 9.5 percent by the end of the year. The exchange rate for 2000 is forecast to be around 10.0 pesos/US$ by the end of the year, which would represent about a five percent depreciation relative to the rate that prevailed in 1999 (9.5). Mexico's fiscal deficit will likely reach approximately 1.0 percent of GDP this year, about the same as last year's.

Continuation of these positive macro-economic indicators into 2001 will depend on how well the GOM responds to internal and external developments during the next several months. Exceptionally strong consumer demand could lead to serious overheating of Mexico's economy, which could cause inflation to rise. The growth that this demand provokes attracts capital inflows and strengthens the peso. This can encourage excessive imports. If undiminished, at some point the current account will weaken and may provoke a correction that could induce a fall in economic growth. The Bank of Mexico is implementing monetary restrictions to prevent such overheating.

The GOM's ability to absorb the effects of a U.S. economic slowdown, and possible fall in oil prices, will also determine whether Mexico will be able to maintain buoyant economic growth in the years to come. A significant downturn in the U.S. economy could cause a substantial fall in U.S. equity prices, which would provoke an increase in U.S. interest rates. The end result could trigger a downturn in Mexico. The expansion of trade with Mexico's non-NAFTA partners could mitigate the effects of a slowdown in the United States. Mexico's free trade agreement (FTA) with the European Union could initiate robust growth in Mexican exports to Europe without posing a threat to the commercially most important U.S. agricultural exports to Mexico. This is true because Mexico did not make tariff rate concessions to the E.U. on any products for which the E.U. provides export subsidies (grains, meat, dairy, etc.). Its development as an export market may more than offset the likely decline in world oil prices during the next few years, given that oil exports now account for less than 10.0 percent of total Mexican exports. Oil revenues nonetheless remain of great significance to Mexico. They account for nearly 35 percent of government budgetary revenue. The GOM thus has a strong interest in cooperating with the OPEC producers to ensure that the price of oil remains at what they consider an acceptable level. The GOM assumed that Mexico would obtain $16.0 per barrel for its oil exports when it prepared the fiscal year 2000 budget, but the price of Mexico's oil has averaged about $24 per barrel during the first six months of 2000.

On July 2, 2000, Mexican voters elected Vicente Fox as their new President. This was a historic event because he is from the National Action Party (PAN by its Spanish initials), not the Institutional Revolutionary Party (PRI by its Spanish initials) which had dominated Mexican politics for over 70 years. He ran on a pro-business, free trade platform, but it is too early to tell as of this writing what economic policies he will implement to support that platform. He will take power on December 1, 2000.

SUGAR PRODUCTION

The industry and the sugarcane growers have not yet set a sugar production estimate for MY 2000 (November/October). Industry sources, however, forecast sugar production at 4.98 million metric tons (MMT) raw value, very close to MY 1999 sugar production. Although weather conditions have been good, the production forecast has been revised downward due to the industry's deficitary maintenance that will not allow yields to increase much from previous levels. Sugarcane planted area for MY 2000 remains unchanged. In fact, the industry plans to maintain the current area devoted to sugarcane.

Sugar production estimates for MY 1999 were revised downward to 4.97 MMT raw value based on recent industry data. Despite this adjustment, prevailing good weather helped to keep production volumes close to previous estimates. In recent years, the Mexican industry has achieved higher mill yields and recovery rates. Sugar mill recovery rates from sugarcane increased in MY 1999 to 11.5 percent from 10.78 percent in MY 1998. Area harvested for MY 1999 was revised downward to 600 hectares and sugarcane production was also revised downward to 42,101 MMT based on industry information. But, sugarcane yields increased to 70.2 MT/ha from 68.6 MT/ha in MY 1998 due to timely rainfall during the growth season.

Presently, the sugar industry faces excess capacity and financial problems. With almost no sources of credit, cash flow problems and high sugar inventories, the industry had no way to pay sugarcane workers June and July wages. To help the industry and prevent social unrest, on June 8, 2000, Bancomext, Mexico's EXIMBANK, working through FINASA (Mexican Sugar Financing Bank) approved a financial assistance program (See MX0096). Bancomext would finance US$ 400 million to pay for sugarcane and wages, and provide mills working capital. According to private sources, however, very few mills have benefitted from this credit. Approximately, only 50 percent was used because it must be paid back by November 30, 2000.

Furthermore, and as reported in MX0128, the Mexican government decided to liquidate FINASA. The liquidation of FINASA means there will be no special access to credit for the sugar industry, which now will have to use normal commercial channels. Discounts on anticipated payments, and the continual restructure of existing debt for the different sugar mills have been eliminated. FINASA's assets and liabilities will be transferred and administered by FIDELIQ, the government's Liquidation Trust under the Secretariat of Treasury. According to local news, the sugar industry has a debt of approximately 1.5 million dollars with FINASA.

HFCS PRODUCTION

Mexico has two plants producing high fructose corn syrup (HFCS), one in Jalisco and another in Queretaro, producing HFCS-42 and HFCS-55, respectively. Much of the corn used for HFCS production is imported from the United States under the NAFTA tariff rate quota (TRQ). The Secretariat of Commerce and Industrial Development (SECOFI) has authorized the wet-milling industry to import a total of 1,850,797 MT of U.S. corn for 2000 (See report MX0112). Mexican production of HFCS is not published by official sources, and companies treat it as confidential information. Therefore, the HFCS production estimate for 2000 ranges from 330,000 to 400,000 MT.

SUGAR AND HFCS CONSUMPTION

Sugar consumption for MY 2000 is forecast to continue at 4.4 MMT. The sugar industry maintains that sugar consumption has remained flat because of increased usage of alternative sweeteners, both imported and domestic. Private sources indicate that refined sugar consumption by the soft drink industry for 2000 will be approximately 1.0 to 1.2 MMT. The soft drink industry consumes approximately 200,000 to 250,000 MT of HFCS. The remainder of HFCS is used by the bakery, food processing, fruit and juice canning, and yogurt industries. As sugar becomes more expensive and HFCS prices become more accessible, the balance between the use of sweeteners by the soft drink industry could change. Sugar consumption for MY 1999 remains unchanged. Sources indicate that the soft drink industry's level of consumption of refined sugar and HFCS for MY 1999 was very similar to what the industry is consuming during MY 2000.

SUGAR TRADE

The sugar export forecast for MY 2000 was revised downward to 540,000 MT. This outlook, however, is tempered by the final results of actual sugar production, substitution by alternative domestic and imported sweeteners, and the amount of duty-free sugar Mexico will have in the U.S. sugar market under NAFTA. It is important to note that domestic sugar prices, although low, are higher than international prices. Therefore, the sugar industry considers exports as a double-edged sword — they are necessary to reduce storage costs, but unprofitable due to low international prices. Also, the Mexican industry has been exporting excess sugar on a per mill quota basis to prevent downturns in domestic sugar prices.

According to NAFTA, the duty-free access quantity for sugar for MY 2000 will increase. The United States and the Mexican governments went through difficult negotiations because of the confusion between the original NAFTA document and a "side-letter" allowing different quantities of Mexican sugar to be exported to the United States. As of the writing of this report, no agreement has been reached and Mexico has already filed for a NAFTA dispute resolution panel under Chapter XX of NAFTA. The Undersecretary of SECOFI, Luis de la Calle, stated that if the NAFTA Agreement conditions are not respected there will be no other solution than to appeal to the dispute resolution panel. On the other hand, the Mexican sugar producers have repeatedly mentioned that if NAFTA is not respected, they will request the Mexican government to apply safeguards to close the border to U.S. HFCS. On Sept. 19, 2000, however, USDA announced the Fiscal 2001 tariff-rate quotas for sugar, where Mexico was allocated 105,788 MT of quota to comply with the United States' NAFTA obligation. The Mexican government will wait for the NAFTA dispute resolution panel decision. Mexico still believes it should have complete access for all of its excess sugar, which it estimates at over 500,000 MT.

Mexico's sugar export forecast for MY 1999 was revised downward to 575,000 MT. International prices did not improve much and Mexico did not export as it much as had expected. As mentioned previously, this outlook is tempered by the final results of actual sugar production and substitution by alternative domestic and imported sweeteners. Sugar exports under the U.S. quota for MY 1999 were approximately 27,900 MT, including both raw and refined sugar. According to the industry, there were no sugar imports for MY 1999 and are not expecting any for MY 2000 due to high sugar production and stocks.

The 1999 NAFTA tariff for imports of U.S. sugar was US$0.3166 per kg. The import tariff for third countries in 1999 was US$0.3958 per kg. (See tariff table in Section II)

HFCS TRADE

As the result of the Mexican sugar industry's antidumping case, since January 23, 1998, U.S. HFCS entering Mexico must pay compensatory duties of up to US$100.60/MT on HFCS-42 and US$175.50/MT on HFCS-55. These compensatory duties have to be paid in addition to the normal 4 percent *ad-valorem* duty. These duties apply to the following HTS Numbers: 1702.40.99; 1702.50.01; 1702.60.01; 1702.60.02; and 1702.60.99. Compensatory duties restricted HFCS imports in 1997 and 1998. Mexican trade data, however, show HFCS imports for 1999 at 346,000 MT, an increase of 17 percent. HFCS imports for 2000 are expected to keep growing. Imported HFCS prices for 1999 averaged US$250 MT on a dry basis, while prices up to July 2000 averaged US$228 MT.

Regarding developments on the HFCS antidumping case, on September 20, 2000, Mexico published a revision to the Final Resolution to reflect the World Trade Organization (WTO) dispute settlement panel determinations. The panel determined, among other things, that

SECOFI did not consider all the economic factors of the Mexican sugar industry to determine a threat of injury to that same industry. Also, the panel concluded that SECOFI had improperly imposed preliminary duties for a period longer than six months, and had improperly imposed final antidumping duties when the provisional duties were still in place. The revised Final Resolution contains the analysis missing in the previous resolution and, in so doing, SECOFI ratified the previous conclusion that in the period of time investigated there was a threat of injury to the Mexican sugar industry from the importation of HFCS from the United States. Therefore, the government upheld the final countervailing duties imposed in 1998. Also, consistent with the WTO's conclusion, preliminary countervailing duties paid from June 26, 1997, to January 23, 1998, before the publication of the *previous* final resolution on January 23, 1998, shall be returned with corresponding interest. The warranties in deposit for these preliminary payments will also be canceled (See report MX 0140).

STOCKS

The industry indicates that sugar stocks are still higher than needed because demand is flat, production has increased and the export price is well below domestic production costs. Sugar stocks for MY 1999 and MY 2000 have been revised downward based on industry information, but are still considered as high.

SECTION II. STATISTICAL TABLES

CENTRIFUGAL SUGAR TABLE

PSD Table						
Country	Mexico					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Market Year Begin	11/1998		11/1999		11/2000	
Beginning Stocks	670	670	665	665	623	585
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	4985	4985	5070	4977	5090	4987
TOTAL Sugar Production	4985	**4985**	5070	**4977**	5090	**4987**
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	5655	**5655**	5735	**5642**	5713	**5572**
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	590	590	630	575	700	540
TOTAL EXPORTS	590	590	630	575	700	540
Human Dom. Consumption	4400	4400	4482	4482	4482	4482
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	4400	4400	4482	4482	4482	4482
Ending Stocks	665	665	623	585	531	550
TOTAL DISTRIBUTION	5655	**5655**	5735	**5642**	5713	**5572**

SUGAR CANE FOR CENTRIFUGAL SUGAR

PSD Table						
Country	Mexico					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Market Year Begin	11/1998		11/1999		11/2000	
Area Planted	730	730	730	730	730	730
Area Harvested	635	635	627	600	630	630
Production	43590	**43590**	43365	**42101**	44000	**44000**
TOTAL SUPPLY	43590	43590	43365	42101	44000	44000
Utilization for Sugar	43590	43590	43365	42101	44000	44000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	43590	**43590**	43365	**42101**	44000	**44000**

SUGAR PRICES

SUGAR PRICES* Units: 50 Kg. Bulk / Pesos						
Month	Standard		Change %	Refined		Change %
	1999	2000		1999	2000	
January	222.59	220.61	(0.89)	250.22	259.02	3.52
February	214.45	207.89	(3.06)	251.28	252.5	0.49
March	195.14	207.75	6.46	241.93	250.11	3.38
April	184.23	201.33	9.28	239	248.45	3.95
May	184.54	219.23	18.80	233.35	245.58	5.24
June	223.55	216.75	(3.04)	242.83	237.48	(2.20)
July	220.27	232.14	5.39	251.83	244.47	(2.92)
August	207.16	232.22	12.10	243.62	246.61	1.23
September	211.56	230.60	9.00	239.71	245.91	2.59
October	224.71	N/A	N/A	271.33	N/A	N/A
November	242.96	N/A	N/A	267.38	N/A	N/A
December	228.98	N/A	N/A	263.02	N/A	N/A
* Prices F.O.B. Mill						

SOURCE: FIDEICOMISO PARA EL MERCADO DE AZÚCAR "FORMA"
1999 AVG. EXCHANGE RATE US$1.00 = $9.55 PESOS
EXCHANGE RATE (SEP 25, 2000) US$1.00 = $9.65 PESOS

TRADE MATRICES

SUGAR

SUGAR ***Subheading*** *1701*		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	170,097	**U.S.**	14,251
OTHER		OTHER	
UNITED KINGDOM	34,402	*BRAZIL*	2,731
TOTAL OF OTHER	34,402	TOTAL OF OTHER	2,731
OTHERS NOT LISTED	21,202	OTHERS NOT LISTED	2,151
GRAND TOTAL	225,701	GRAND TOTAL	19,133

SOURCE: 1993, 2000 Global Trade Information Services, Inc. Mexico Edition, June 2000.
* As of June 2000.

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

HFCS ***Subheading*** 1702.40.00		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	3	**U.S.**	0
OTHERS NOT LISTED	184	OTHERS NOT LISTED	0
GRAND TOTAL	187	GRAND TOTAL	0

HFCS ***Subheading*** 1702.40.01		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	0	**U.S.**	391
OTHERS NOT LISTED	0	OTHERS NOT LISTED	1
GRAND TOTAL	0	GRAND TOTAL	392

HFCS ***Subheading*** 1702.40.99		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	0	**U.S.**	2,537
OTHERS NOT LISTED	0	OTHERS NOT LISTED	2,983
GRAND TOTAL	0	GRAND TOTAL	5,520

SOURCE: 1993, 2000 Global Trade Information Services, Inc. Mexico Edition, June 2000.
* As of June 2000.

HFCS *Subheading* 1702.60.00		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	1,122	**U.S.**	450
OTHERS NOT LISTED	1,726	OTHERS NOT LISTED	0
GRAND TOTAL	2,848	GRAND TOTAL	450

HFCS *Subheading* 1702.60.01		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	0	**U.S.**	127,067
OTHERS NOT LISTED	0	OTHERS NOT LISTED	0
GRAND TOTAL	0	GRAND TOTAL	127,067

HFCS *Subheading* 1702.60.99		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000* TO:		**IMPORTS FOR 2000* FROM:**	
U.S.	0	**U.S.**	2,267
OTHERS NOT LISTED	0	OTHERS NOT LISTED	150
GRAND TOTAL	0	GRAND TOTAL	2,417

SOURCE: 1993, 2000 Global Trade Information Services, Inc. Mexico Edition, June 2000.
* As of June 2000.

TARIFFS

MEXICAN SUGAR IMPORT TARIFFS FOR 2000		
H.T.S. TARIFF # SUBHEADING	NAFTA TARIFFS FOR U.S. COMMODITIES DOLLARS/KG.	SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/KG.
1701.11.01	0.3166	0.39586
1701.11.99	0.3166	0.39586
1701.12.01	0.3166	0.39586
1701.12.99	0.3166	0.39586
1701.91.01	0.3166	0.39586
1701.99.01	0.3166	0.39586
1701.99.99	0.3166	0.39586
1702.90.01	0.3166	0.39586
1806.10.01	0.3166	0.39586
2106.90.05	0.3166	0.39586

SOURCE: SECOFI

HFCS COMPENSATORY DUTIES			
Company	**HFCS-42**	**HFCS-55**	**HFCS-90/95**
Dollars/ MT			
ADM	63.8	55.4	55.4
CARGILL	100.6	175.5	175.5
CPC	93.4	75.9	75.9
STANLEY	100.6	90.3	90.3
OTHERS	100.6	175.5	175.5

Source: SECOFI