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Mexico

Sugar Annual

Sugar Production to Increase Slightly as Exports Steady

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Report Highlights:

Mexican sugar production for marketing year 2016/17 is forecast to be 6.4 million metric tons raw-value (MMT-RV), although there is not yet an official forecast. Sugar production for MY 2015/16 remains unchanged at 6.4 MMT-RV. The sugar export forecast for MY 2016/17 is 1.7 MMT-RV. Post /New total sugar export estimate for MY 2015/16 was revised upward to 1.7 MMT-RV, where exports to the United States under the suspension agreements are expected at 1.1 MMT-RV. The high fructose corn syrup (HFCS) import forecast for MY 2016/17 is expected to be similar to MY 2015/16.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

PRODUCTION**Sugar**

There is not yet an official forecast for sugar production for marketing year (MY) 2016/17 (October/September). However, due to a good rainy season, the Post forecasts production at 6.47 million metric tons raw value (MMT-RV), slightly higher compared to MY 2015/16. Final production will depend on cultivation practices, such as application of fertilizers, pesticides, crop rotation, and pruning, as well as timely maintenance of sugar mills, weather throughout the growing season, and harvest conditions.

In March 2016, the National Committee for the Sustainable Development of Sugar Cane (CONADESUCA) published its [second estimate](#) for sugar production, in which sugar production remains at 6.4 MMT-RV for MY 2015/16, the same level as in the first estimate. However, it is important to note that at the beginning of the cycle in November 2015, Hurricane Patricia sent heavy rainfall that resulted in harvesting delays in the states of Colima, Jalisco, and Nayarit due to floods. In fact, several mills throughout Mexico began harvesting well after the estimated start dates. According to CONADESUCA, fifty mills were operating throughout the country by April 2016, and CONADESUCA expects one more mill to begin processing soon. According to the official estimates, cane yields are expected at about 67.6 Tons/Hectare and mill yields are expected at 11.1 percent.

According to CONADESUCA's [Advance Report](#) # 21, from March 26, 2016, area harvested has advanced 60 percent, milled sugarcane 67 percent, and sugar production 66 percent compared to the organization's first estimate. Production is behind schedule compared to previous expectations, leading to accumulated deficit of sugar production of 73,130 MT actual weight (77,517 MT-RV). However, this is less than the deficit in February 2016 of 95,957 MT actual weight (101,714 MT-RV), which could mean that the mills are recovering from their slow start (See Table 1). Official production estimates in Mexico for MY 2014/15 remains unchanged from previous estimates.

Table 1. Mexico -Sugar Production – Week 26				
MY 2015/16				
	Area Harvested	Milled cane	Sugar production (MT-Actual	Mill

Table 1. Mexico -Sugar Production – Week 26 MY 2015/16				
	(Ha)	(MT)	Weight)	Yield %
Current MY 2015/2016	480,818	36,606,732	3,997,811	10.92
1st. Estimate 2015/16	535,348	37,068,719	4,070,941	11.08
Source: CONADESUCA Report #21 for 2015/16 March 26, 2016				

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- a strong organization of peasants/small agricultural producers that is very close to the ruling PRI Party) and the National Association of Sugarcane Growers (CNPR). All growers operate under contracts to deliver their cane to contracting 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.

Sugarcane Production

There is no official Mexican forecast for sugarcane production for MY 2016/17, but based on past performance, the Post/New forecast of cane to be processed is between 55 and 56 MMT. This forecast is slightly higher than Post's cane production estimate for the current year, as the impact of expected better weather is mitigated by market uncertainties discouraging additional investments in cane production. Price uncertainties have discouraged best management practices (e.g., less fertilizer applications) and expansion of production area in some regions. The Post/New estimate for sugarcane production to be processed for MY 2015/16 was revised downward from previous estimates to 54.3 MMT, based on official data. The industry estimates overall cane yields at 67.6 MT/hectare (Ha) for MY 2015/16, slightly lower than MY 2014/15 yields of 68.4 MT/Ha. Sugarcane production for MY 2014/15 remains unchanged.

As previously reported, virtually all sugarcane goes to the production of centrifugal sugar. Mills operate between November and May to coincide with the cane harvest. Although there is no official Mexican MY 2016/17 forecast for cane planted area, Post expects that planted area will remain close to 836,000 Ha. According to the Secretariat of Agriculture's (SAGARPA) Agri-food and Fishery Information Service (SIAP), area planted data includes area planted in past marketing years, as well as any new planted area, since the growing phase of this crop is approximately 18 months. In addition to sugar prices, area expansion will depend on weather conditions, production cost changes, and the level of continued investment by sugar mills.

Post/New estimate for MY 2015/16 for area planted was revised slightly downwards to 824,000 Ha and the estimate for area harvested was revised upward to 801,000 Ha, based on CONADESUCA's estimates. The Post/New MY 2014/15 planted area estimate was revised downward and harvested area estimate remained unchanged.

Sugarcane Reference Price

Cane growers receive payment for their cane from sugar mills. The price is negotiated each year and is based on a complex formula involving sugar prices and other domestic and international market conditions. These factors are used to determine the Sugarcane Reference Price. According to Article 58 of the [Law of Sustainable Development for Sugar Cane](#), approximately 57 percent of the Reference Price is paid to growers for their sugarcane. Throughout the year, depending on how high or low prices are, two additional payments can be made to growers. The first opportunity is during the summer after mills have made significant sales. At the end of the cycle, a final adjustment is made, resulting in the next marketing year’s Sugarcane Reference Price and a potential final payment to growers. As [previously reported](#), in MY 2014/15 the Mexican governments modified the reference price system to incentivize mills to export sugar.

As announced by the Secretariat of Economy (SE) on [October 30, 2015](#), the standard sugar reference price to calculate sugarcane payments for the MY 2015/16 crop is \$8,130.65 pesos per MT (\$486.86 dollars/MT at \$16.70 pesos per dollar exchange rate at that time). This price is slightly higher in peso terms than prices announced for the past MY 2014/15 of \$7,099.83 pesos per MT (\$517.10 dollars/MT at \$13.73 pesos per dollar exchange rate). Recent reference prices and payment levels are listed below in Table 3. The following reference prices are the initial ones announced at the beginning of each marketing year.

**Table 2. Mexico: Reference Price for Sugarcane
MY2010/11-MY2015/16**

Sugarcane MY 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
2010/11	10,222.26	\$819.74	\$467.25	12.47
2011/12	10,368.58	\$768.61	\$438.10	13.49
2012/13	10,617.72	\$846.70	\$482.62	12.54
2013/14	6,697.00	\$511.22	\$291.39	13.10
2014/15	7,099.93	\$517.10	\$294.74	13.73
2015/16	8,130.65	\$486.86	\$277.51	16.70

Source: Diario Oficial.

Sugar Wholesale Prices

The SE, through the National Market Information Service ([SNIIM](#)), reports sugar prices on a monthly basis delivered to various cities in Mexico from different mills. The prices in Table 5 and 6 below are for monthly prices of sugar delivered to the wholesale market in Mexico City on a 50-kilogram bag basis. According to the industry, higher prices after the month of May 2015 reflect the end of the harvesting season and lower sugar inventories. By November 2015, prices began to fall with the start of the 2015/16 harvest.

High Fructose Corn Syrup

The Mexican high fructose corn syrup (HFCS) industry believes that for MY 2016/17 it will continue producing HFCS at almost the same levels as in the previous marketing year. CONADESUCA's estimate of Sweeteners Production for MY 2015/16 is at the same levels as MY 2014/15, or 498,820 MT dry basis. This level is nearly at the industry's maximum capacity. 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 the HFCS demand.

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 Government of Mexico continues to encourage forward contract purchases between Mexican farmers and yellow corn buyers in an attempt to increase domestic production of yellow corn, but it seems the results have not been as optimistic as expected and domestic production of yellow corn remains small. MY 2015/16 production of yellow corn in Mexico is expected at about 2.9 million tons, where the main producers are the states of Chihuahua and Jalisco. The United States will remain the main supplier of yellow corn to Mexico.

CONSUMPTION

Sugar and HFCS

Assuming current pricing trends for sugar continue, the sugar industry expects sugar consumption for MY 2016/17 to grow at a slow rate. Therefore, the Post/New forecast for domestic consumption for MY 2016/17 is 4.6 MMT-RV. Consumption will also depend on the substitution of sugar with HFCS. The sugar consumption forecast for MY 2015/16 was revised downward from previous estimates to under 4.6 MMT-RV, due to lower demand. Domestic sugar consumption for MY 2014/15 was revised slightly upward based on information from CONADESUCA. Sources indicate that MY 2014/15 had unusually high consumption compared to the previous marketing year, due to the fact that Mexican exporters were holding back shipments due to the uncertainty surrounding the U.S.-Mexico suspension agreements and the fact that the guidelines to obtain export licenses were not published until the first week of February 2015. Also, FEESA, the fund created to manage expropriated sugar mills, began to sell the government mills in MY 2014/15 and needed to sell all stored sugar, increasing apparent domestic consumption. It is also possible that private trade companies were carrying high inventories that were sold to the market.

Substitution between HFCS and sugar has been increasing in several industries over the last few years, including among the largest users of HFCS, soda bottlers. Trends for MY 2015/16 indicate growth in HFCS consumption to 1.47 MMT dry basis, a 2.0 percent increase over MY 2014/15 consumption. Growth in MY 2014/15 was 5.2 percent over MY 2013/14. This volume of HFCS represents about 24.6 percent of total domestic sweeteners consumption. However, some industry sources believe that imports of HFCS for 2016 could slow down due to the impact of the peso depreciation. HFCS consumption depends on domestic sugar prices, imported corn and HFCS prices, and on current exchange rates.

TRADE

Sugar

In December 2014, the United States and Mexico signed suspension agreements to avoid the imposition of antidumping (AD) and countervailing duties (CVD) on Mexican sugar imported into the United States. Following a final Department of Commerce decision upholding its CVD and AD determinations, the U.S. International Trade Commission ruled in October 2015 that dumped sugar from Mexico does injure U.S. producers. The affirmative injury determination ensures that the suspension agreements remain in place at least until 2019, when they will be reviewed. Commerce will not issue AD or CVD orders as long as the suspension agreements remain in force and all parties to the agreement carry out their obligations.

The Post/New sugar export forecast for MY 2016/17 is 1.7 MMT-RV. CONADESUCA indicates that for MY 2015/16 they are expecting sugar exports at 1.7 MMT-RV, based on the expectations for the quota allotment of sugar to be exported to the United States (expected to be 1.2 MMT-RV) and about 562,000 MT-RV for export to the world market. On March 29, 2016 the SE published a notice increasing the U.S. export quota to 1,178,115.79 MT-RV for October 2015-September 2016. To date, according to CONADESUCA, Mexico has exported to the NAFTA market about 472,147 MT-RV up to March 27, 2016. The new Post export estimate for MY 2014/15 was revised slightly downward from previous estimates based on CONADESUCA's final data.

The peso's continued depreciation against the U.S. dollar will also impact trade; currently, exports are more profitable for Mexico due to the change in the exchange rate. However, imported inputs such as agrochemicals will become more expensive in the long term.

The Post/New sugar import forecast for MY 2016/17 is estimated at 90,000 MT-RV, as domestic supplies are expected to remain adequate. The Post/New sugar import forecast for MY 2015/16 was revised downwards due to changes to the re-export program ([IMMEX](#)) that may lower imports. Formerly, a large portion of imports were used to cover the needs of the Mexican Sugar Re-export Program industries (IMMEX). As previously reported, in early 2015 the SE submitted a proposal to modify the IMMEX program to Mexico's equivalent of the Office of Management and Budget, COFEMER. This proposal was approved, and as of February 5, 2016, IMMEX-certified companies can only import sugar if that sugar does not benefit from the U.S. Sugar Re-export Program. As a result, "Maquila" companies that have used U.S. sugar from the Re-export Program will now need to find alternate sources. Some industry members believe there will be no issues in sourcing Mexican sugar for their operations, while others believe some "Maquila" companies will close operations. The Post sugar import estimate for MY 2014/15 was revised slightly upward due to more sugar used in the IMMEX program.

Sugar use under the "other disappearance" category is mainly for the IMMEX program. The Post forecast for MY 2016/17 for sugar use under IMMEX is 270,000 MT-RV as it is expected that imported sugar for this purpose will be lower due to new government policies, as noted above. The Post/New estimate for MY 2015/16 for sugar use under IMMEX was also revised downward due to expected lower imports due to the publication of the IMMEX rules. However, it is still uncertain how the companies will react to the new IMMEX rules and if they will continue importing sugar outside the

IMMEX program. The Post/New estimate for sugar use under IMMEX for MY 2014/15 was updated based on CONADESUCA's information.

HFCS Imports

HFCS imports for MY 2016/17 are expected to be similar to MY 2015/16 imports, or 1.0 MMT dry basis. However, some industry members believe that imports for MY 2016/17 could be lower than expected due to the impact that the peso depreciation against the U.S. dollar will have on prices. CONADESUCA expects imports of HFCS for MY 2015/16 at 1.0 MMT dry basis. Imports of HFCS for MY 2014/15 were estimated at 978,677 MT dry basis. MY 2013/14 imports were about 912,535 MT dry basis.

STOCKS

The Post/New sugar ending stock forecast for MY 2016/17 is 799,000 MT-RV, based on expected sugar production. However, sugar prices and exports will determine the final stocks. Post/New stocks for MY 2015/16 are likely to end at 813,000 MT-RV depending on the level of exported sugar. The Post ending stock estimate for MY 2014/15 remains unchanged at 860,000 MT-RV.

Sugar stocks in Mexico are held by government mills, private mills, and traders.

POLICY

Selling of State Owned Sugar Mills

As previously reported, in March 2015, Mexico's Service of Administration and Disposition of Assets (SAE) announced [the public tender of nine sugar mills](#) that were administered by FEESA, a fund created in 2001 to administer the government expropriated sugar mills. In May 2015, SAE announced the sale of four of these mills to Zucarmex and Beta San Miguel.

In September 2015, a public tender was published to sell the last five state-owned sugar mills that were administered by FEESA. In December 2015, three mills out of the five were sold. The two mills that could not be sold were El Potrero and San Miguelito, both in Veracruz. The sale for the mills has been contentious, as the previous owner of the sold mills, CAZE Group, has been trying to get the mills back since 2001. Though initially successful in delaying the sale with a court injunction, CAZE was not able to prevent the sale that went ahead in December 2015. The company's argument is that the mills were not the property of the government, since the government did not complete all of the legal requirements for the original expropriation. On January 22, 2016 a court issued a suspension of the sale of two mills (Emiliano Zapata and Casasano) until the issue between Caze Group and the government is resolved. However, these mills have already been sold and are being operated by new owner Beta San Miguel. Therefore, the impact of the court's decision is unclear.

Ethanol Production

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. There are provisions within the Sugar Law focused on the possibility of producing ethanol as a key goal.

Despite this legal framework, Mexico has not formally introduced ethanol into its commercial gasoline mix. Price fluctuations in both the oil and ethanol markets and the lack of an established supply chain have prevented the country from fully establishing its clean fuel strategy. Mexico's state-run oil company, *Petroleos Mexicanos* (PEMEX) is working with the winners of a 2015 bidding process to provide ethanol for blending with gasoline. PEMEX will begin changes on its distribution and storage infrastructure to be able to receive ethanol that will be mixed with its *Magna* brand gasoline at a 5.8% (E6) level. Still, some of the companies that won the bids have yet to begin ethanol production, so no immediate ethanol deliveries are expected in the short term. Ethanol prospects will also be impacted by Mexico's ongoing energy reform, and some key liberalization measures will be implemented earlier than previously expected. As of January 1, 2016, gasoline may be sold under a brand other than PEMEX. This would allow other companies can now sell gasoline in Mexico, although it would still have to be gasoline supplied by PEMEX. As of April 1, 2016, companies may import gasoline. This changes the ethanol perspective completely, as some companies may wish to import gasolines already mixed with ethanol. Remaining government controls on the fuel sector, specifically the government-established mandatory prices, will remain determined by the government until 2018, when prices will be market-determined.

STATISTICAL TABLES

Table 3. Mexico: Centrifugal Sugar PS&D

Sugar, Centrifugal Market Begin Year	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks	881	881	860	860	0	813
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	6344	6344	6419	6419	0	6466
Total Sugar Production	6344	6344	6419	6419	0	6466
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	161	182	164	90	0	90
Total Imports	161	182	164	90	0	90
Total Supply	7386	7407	7443	7369	0	7369
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	1545	1517	1408	1709	0	1700
Total Exports	1545	1517	1408	1709	0	1700
Human Dom. Consumption	4638	4672	4651	4577	0	4600
Other Disappearance	343	358	343	270	0	270
Total Use	4981	5030	4994	4847	0	4870
Ending Stocks	860	860	1041	813	0	799
Total Distribution	7386	7407	7443	7369	0	7369

(1000 MT)

Table 4. Mexico: Sugar Cane for Centrifugal PS&D

Sugar Cane for Centrifugal Market Begin Year	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Area Planted	836	820	836	824	0	836
Area Harvested	783	783	786	801	0	800
Production	53601	53601	56120	54275	0	55000
Total Supply	53601	53601	56120	54275	0	55000
Utilization for Sugar	53601	53601	56120	54275	0	55000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	53601	53601	56120	54275	0	55000

(1000 HA) ,(1000 MT)

Table 5. Mexico: Average Wholesale Sugar Prices in Mexico City
MX Pesos per 50 Kilograms – Bulk (CIF Prices)

MONTH	STANDARD		Percent Change	REFINED		Percent Change
	2014	2015		2014	2015	
January	380.75	387.25	1.70	430.42	498.42	15.79
February	345.50	378.50	10.08	416.83	492.92	18.61
March	343.25	370.60	7.96	422.83	486.07	14.95
April	337.90	382.63	13.23	420.33	480.84	14.46
May	362.38	382.67	5.59	426.67	480.56	12.63
June	432.50	450.80	4.23	466.25	516.33	10.74
July	422.70	458.00	8.35	462.85	504.17	8.92
August	438.75	477.50	8.83	470.00	510.42	8.60
September	457.50	570.80	24.76	487.06	591.33	21.40
October	456.50	568.75	24.58	493.84	590.00	19.47
November	431.00	551.25	27.90	509.92	586.67	15.05
December	397.80	540.00	35.74	525.93	589.00	12.12

Source: Servicio Nacional de Información de Mercados [SNIIM-ECONOMIA](#)

Table 6. Mexico: Average Wholesale Sugar Prices in Mexico City
MX Pesos per 50 Kilograms – Bulk (CIF Prices)

MONTH	STANDARD		Percent Change	REFINED		Percent Change
	2015	2016		2015	2016	
January	387.25	530.75	37.05	498.42	591.25	18.62
February	378.50	560.75	48.21	492.92	602.50	22.39
March	370.60	552.80	49.16	486.07	598.00	23.02
April	382.63			480.84		
May	382.67			480.56		
June	450.80			516.33		
July	458.00			504.17		
August	477.50			510.42		
September	570.80			591.33		
October	568.75			590.00		
November	551.25			586.67		
December	540.00			589.00		

Source: Servicio Nacional de Información de Mercados [SNIIM-ECONOMIA](#)

Table 7. Mexico: Monthly Exchange Rate Averages for 2013-2016 MX Pesos per U.S. \$1.00				
	2013	2014	2015	2016
January	12.71	13.20	14.68	18.02
February	12.69	13.28	14.92	18.47
March	12.54	13.22	15.21	17.69
April	12.21	13.29	15.22	
May	12.95	12.93	15.26	
June	12.94	12.99	15.46	
July	12.77	12.97	15.92	
August	12.89	13.14	16.50	
September	13.08	13.21	16.85	
October	13.00	13.47	16.58	
November	13.07	13.59	16.63	
December	13.00	14.44	17.03	
Annual Avg	12.76	13.29	15.85	
Source: Mexican Federal Register				
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico				

Table 8. Mexico: Trade Matrices HFCS Trade

HFCS 170260		Unit: Metric Tons Dry Basis	
Exports for MY 2014/15 (Oct-Sept) to:		Imports for MY 2014/15 (Oct-Sept) from:	
U.S.	22,198	U.S.	1,175,073
Germany	4,782	Canada	3,000
Other	10,494	Other	0
TOTAL	37,474	TOTAL	1,178,073
SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, December 2015			

HFCS		170240		Unit: Metric Tons Dry Basis	
Exports for MY 2014/15 (Oct-Sept) to:			Imports for MY 2014/15 (Oct-Sept) from:		
U.S.	140	U.S.	48,906		
Other	112	Other	66		
TOTAL	252	TOTAL	48,972		
SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, December 2015					

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX 6002	Mexico Prohibits Use of U.S. Re-Export Sugar in IMMEX	01/11/2016
MX 5048	Mexico Announces Sugar Cane Reference Price	11/03/2015
MX 5041	Sugar Semi-Annual	10/09/2015
MX 5038	Mexico Puts last five State-Owned Sugar Mills Up for Sale	09/10/2015

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