



The Mexican Sugar Industry in the context of U.S. policy

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The Mexican Sugar Industry in the Context of U.S. policy



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- Background/update on Mexico – events since expropriation
- Mexican sugar industry balance – looking to the future
- Mexican sugar policy framework – protecting prices
- U.S. policy environment – access is key
- Policy options – buyout and implications
- Final thought – policy analysis and market integration

The Mexican sugar industry after the expropriation



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- Brings discipline to the market
- Congress enacts excise tax on HFCS used in soda pop
- Sugar prices rebound
- Companies whose mill expropriated fight in court
- Government loses legal battle and returns four GAM mills (2004)
- Soda pop companies receive injunction allowing for HFCS use (2005)
- Agricultural Secretary sells two mill in 2005
- Expropriation of Machado mills overturned in 2006 with ruling undermining legal basis for expropriation of the mills
- Mexico loses HFCS battle in WTO
- Government takes expropriated CAZE mills to bankruptcy court
- Biofuel law in Congress

The Decreto Cañero is revoked, but ?



- On January 14, 2005 the Fox Administration revokes the Decreto Cañero
- The Agricultural Secretariat is to bring sugar industry in line with the production chain concept that brings together the different players in the market to negotiate policy and programs. A National Committee for the Sugar Cane System is to be established
- The players negotiate, under the auspices of the Agricultural Secretariat a 7% increase in sugar cane prices for the 2004/05 harvest
- Protests led to Congress proposing a new Sugar Law, incorporating much of the Decreto Cañero.
- SAGARPA and Congress negotiate changes, but no movement as of yet
- In other words, the situation is still in a state of flux

The Decreto Cañero



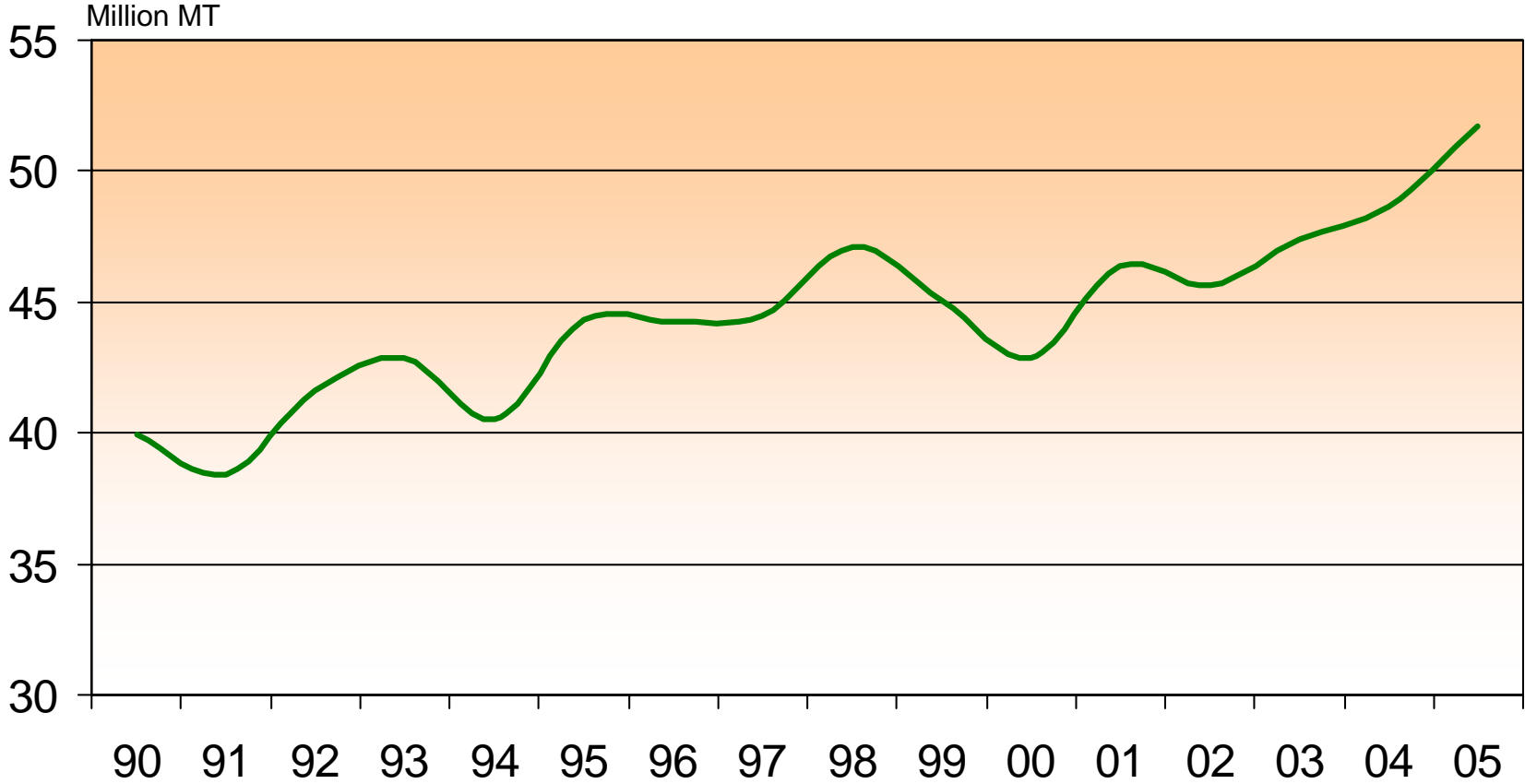
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- *Decreto Cañero* (Sugar Cane Growers Decree) requires farms, whether they be ejido or private farms, that operated within the sugar mills areas of influence to exclusively produce sugar cane. The decree, in turn, required that the mills buy all the sugar cane produced in their area of influence. This assured a market for farmers' cane and jobs for rural laborers.
- The decree limits the mills ability to adjust purchasing to market conditions. The decree also sets forth a pricing formula for the sugar cane based on a percentage increase of the previous year's price.
- Taken together, the various parts of the Decreto Cañero effectively separated the sugar industry from the market.

Sugar cane production is expected to continue growing, but at a slower pace



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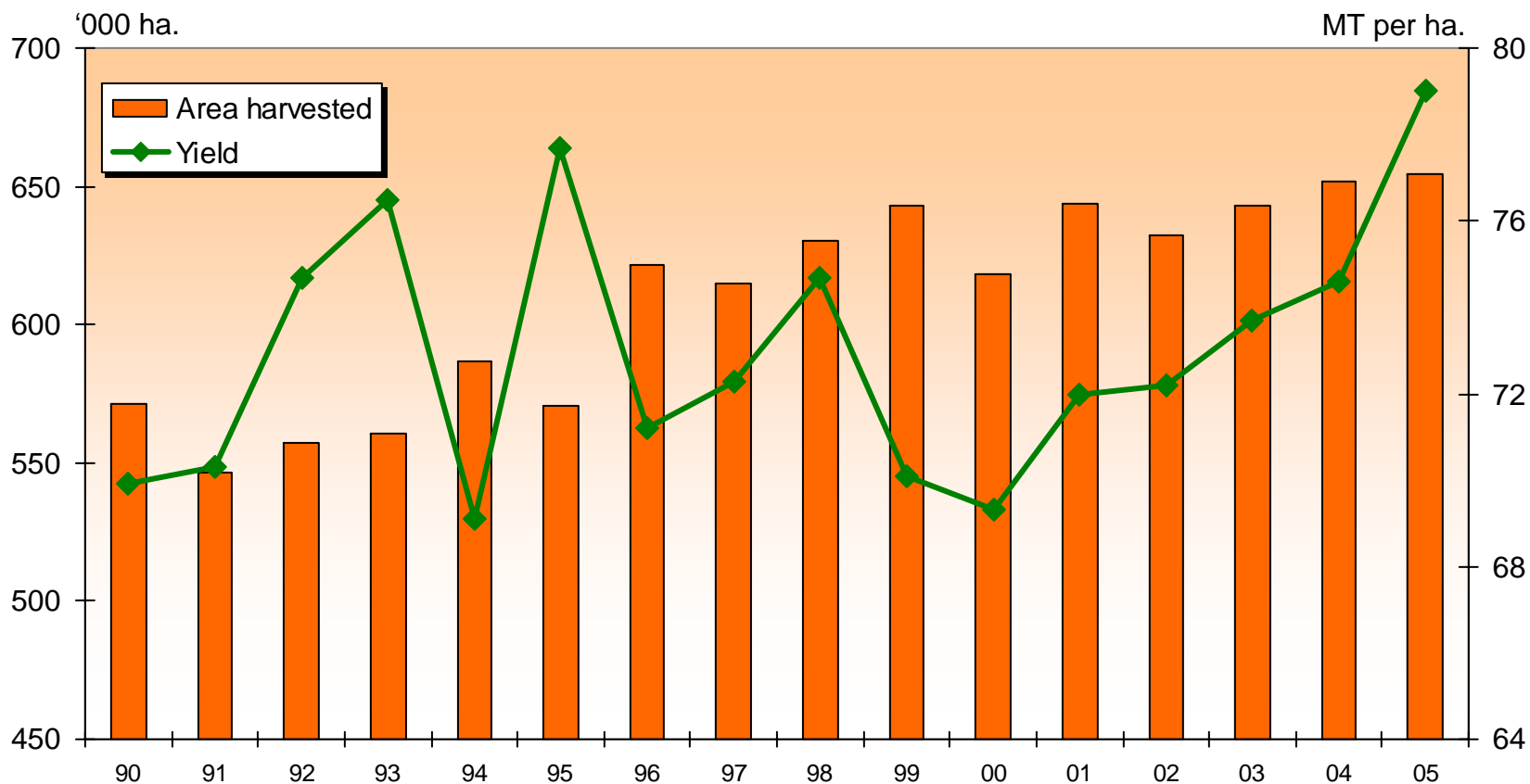


Source: SAGARPA and V Informe de Gobierno

Recent growth in production has come from higher yields rather than expansion of harvested area



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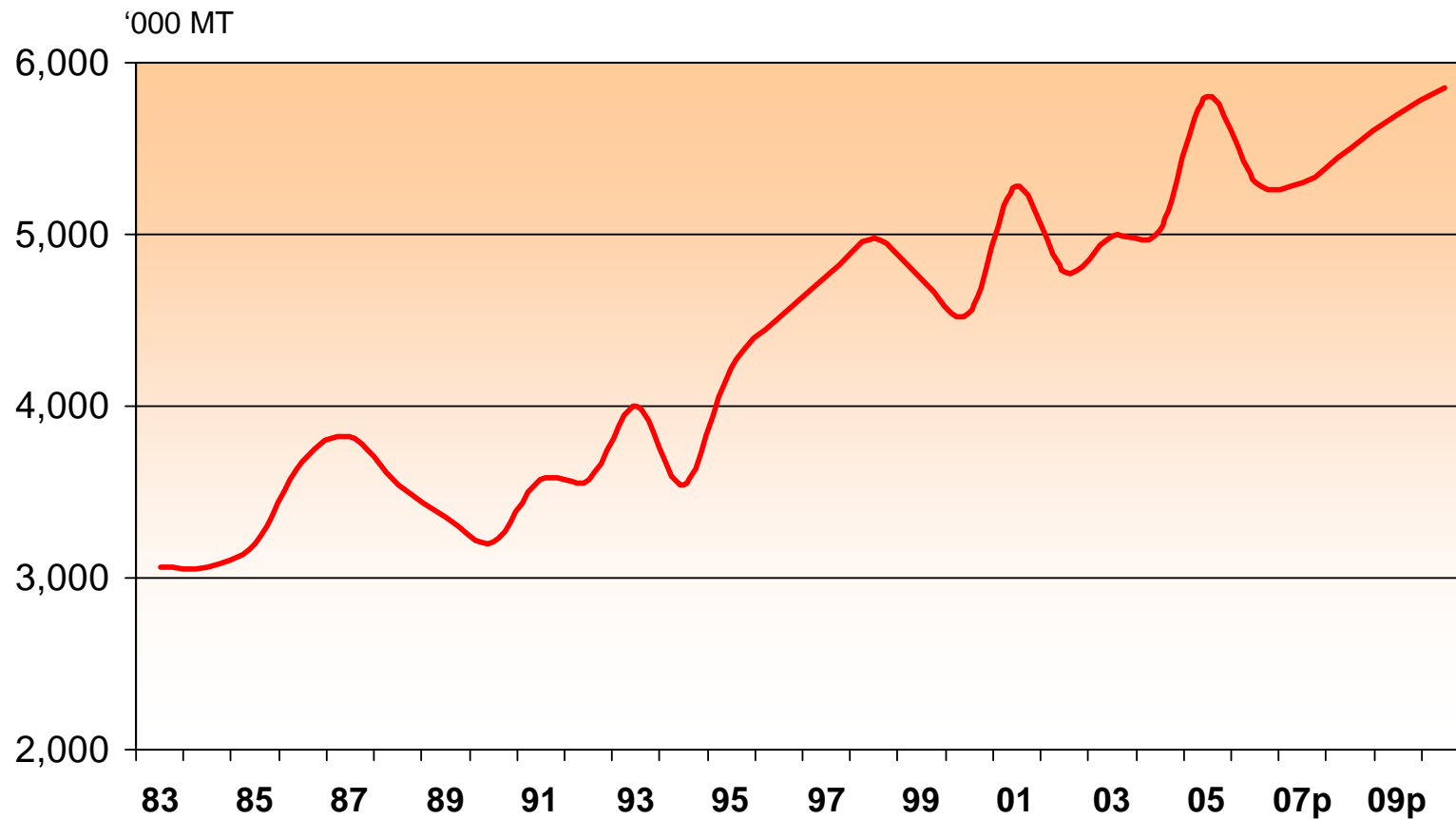


Source: SAGARPA and V Informe de Gobierno

Sugar production is expected to grow moderately through the rest of the decade based on continued favorable prices



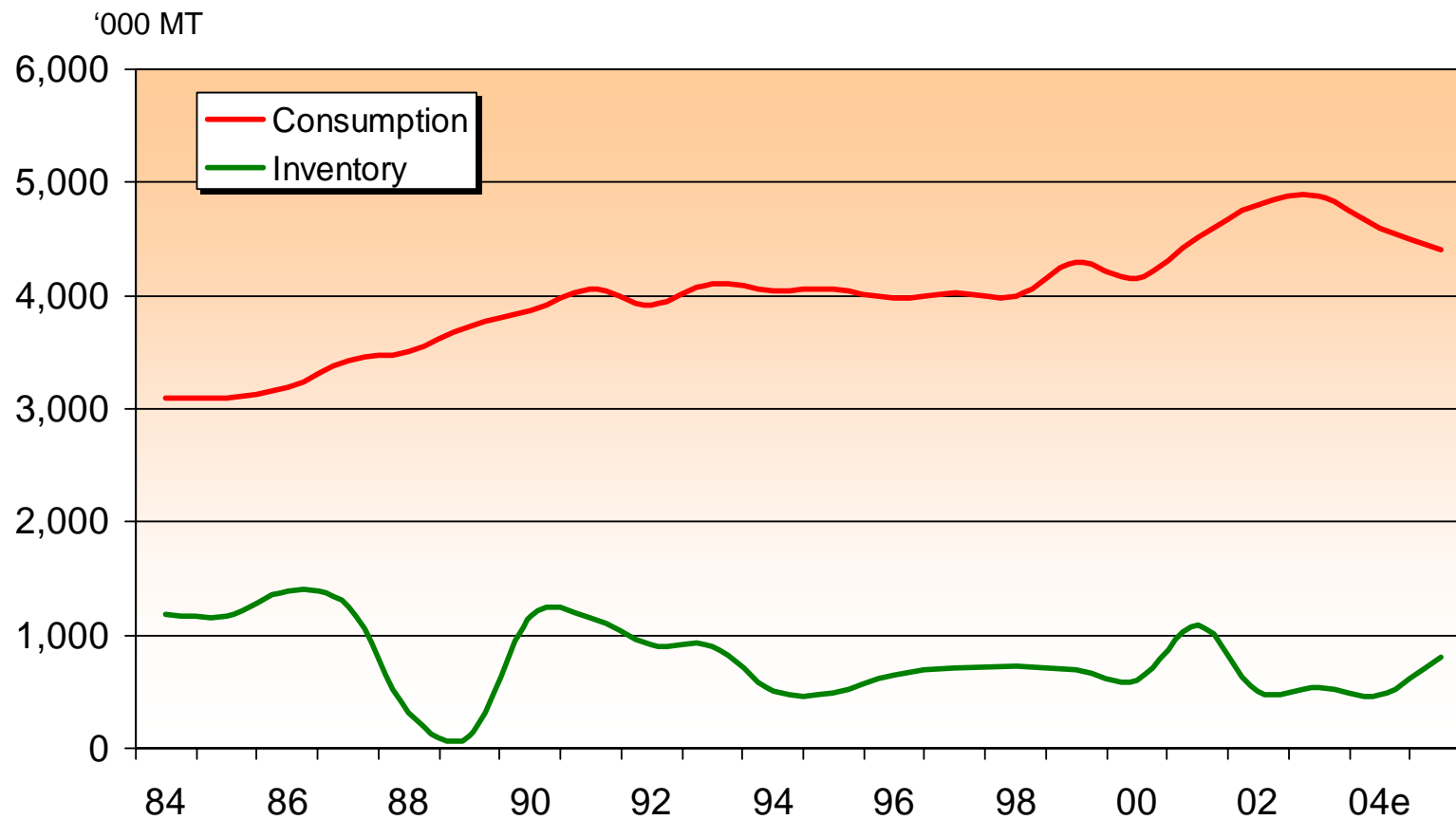
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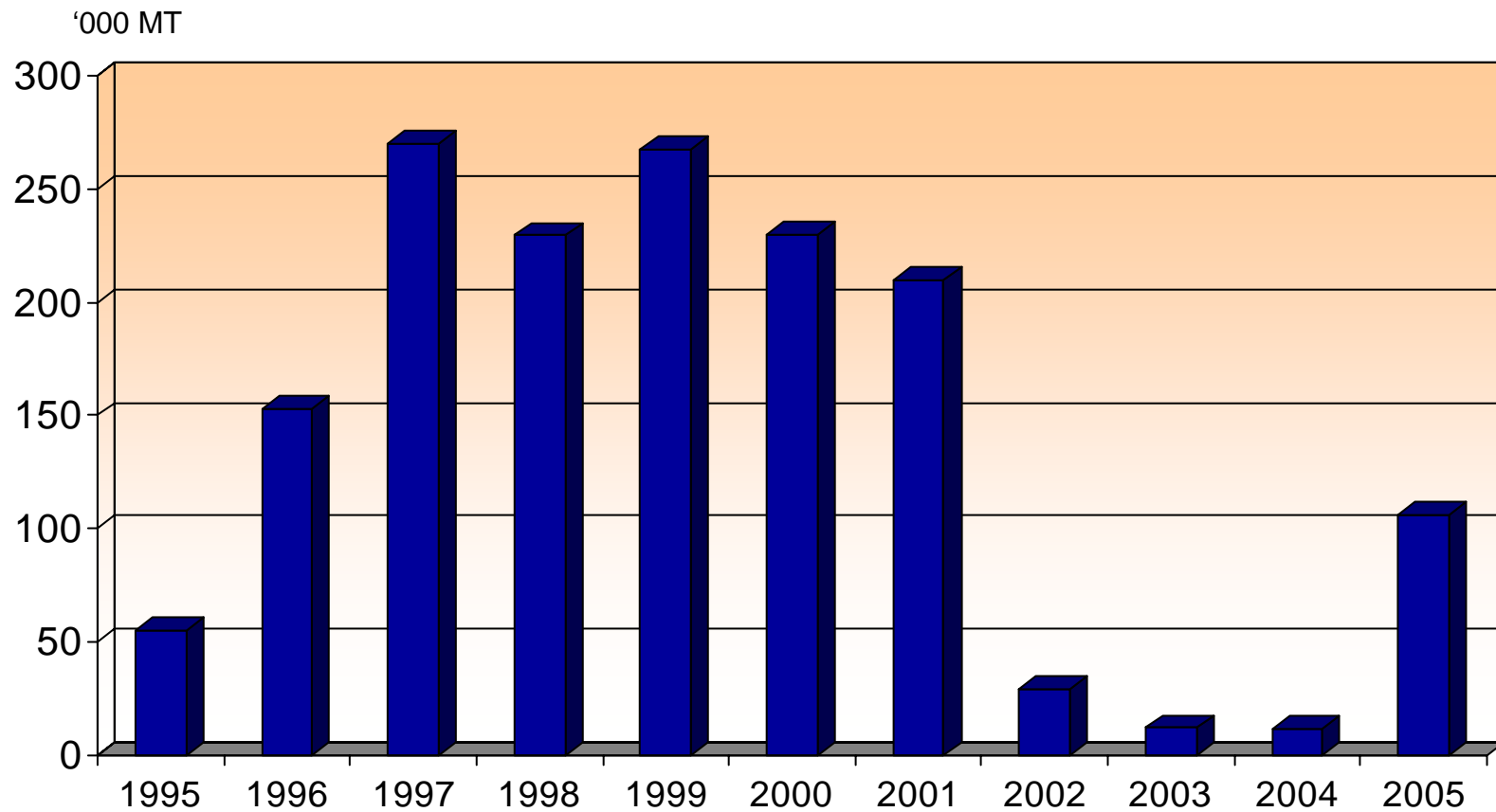
Consumption and end-year inventory



Exports of fructose to Mexico from the U.S. rebounded last year



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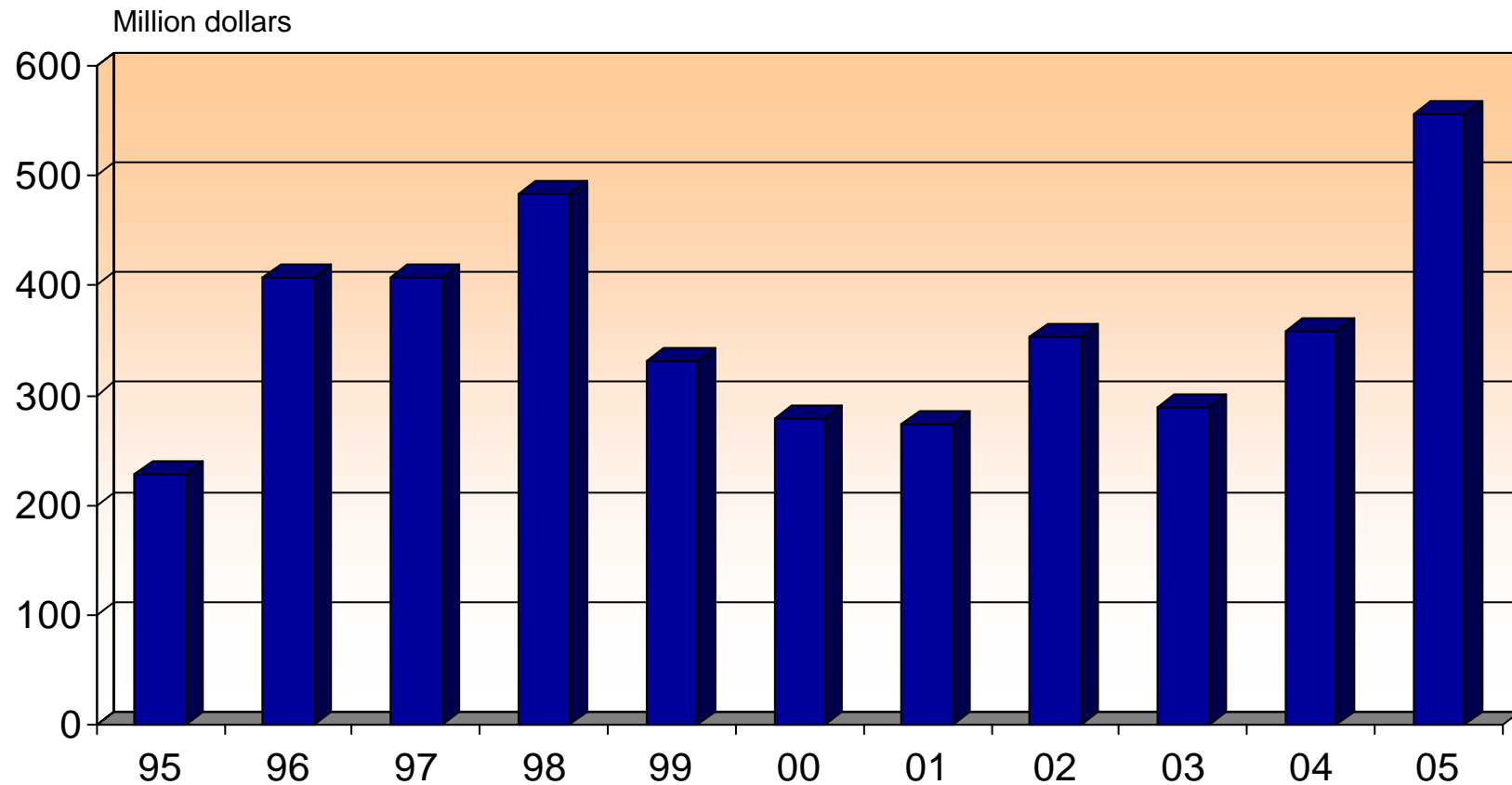


Source: USDA .

The ability to export surplus sugar is key to price stability on the Mexican market



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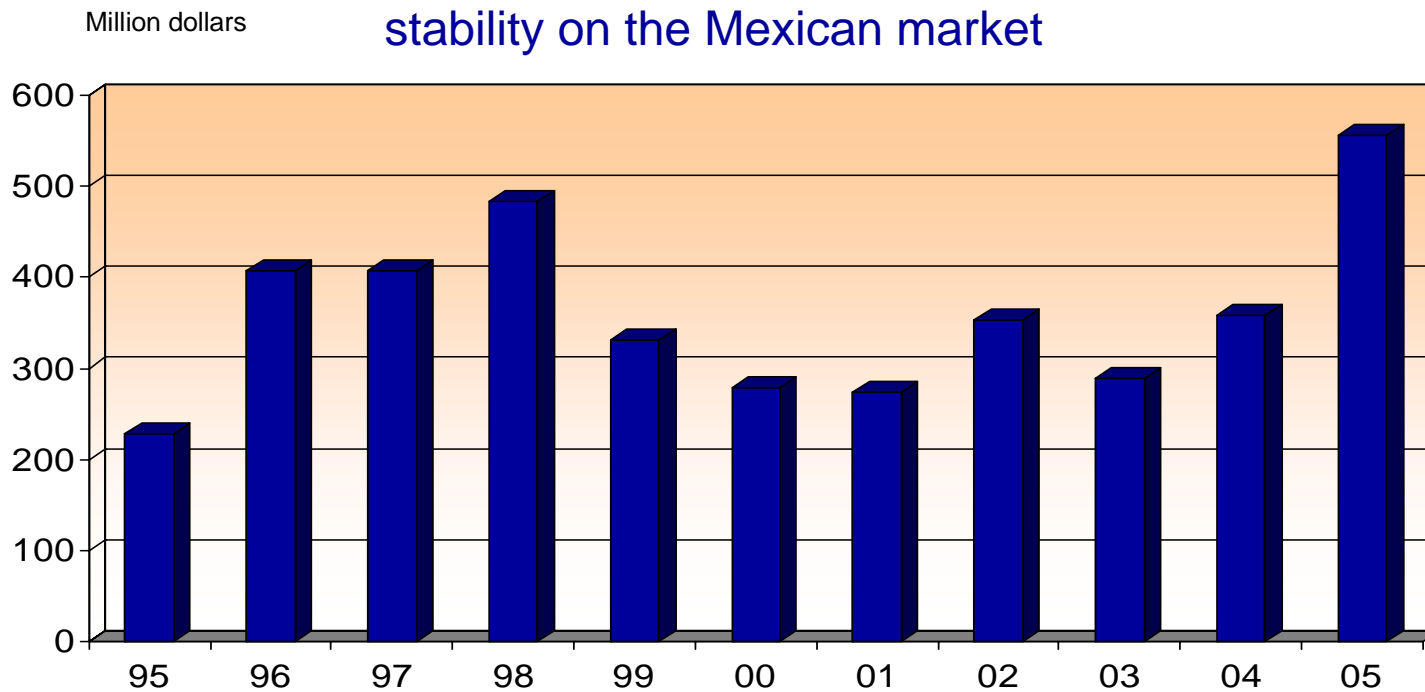
Source: World Trade Atlas

While there have been attempts to enhance industry competitiveness and efficiency, policy has focused on protecting producer cane prices and maintaining equilibrium in the domestic market



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The ability to export surplus sugar is key to price stability on the Mexican market

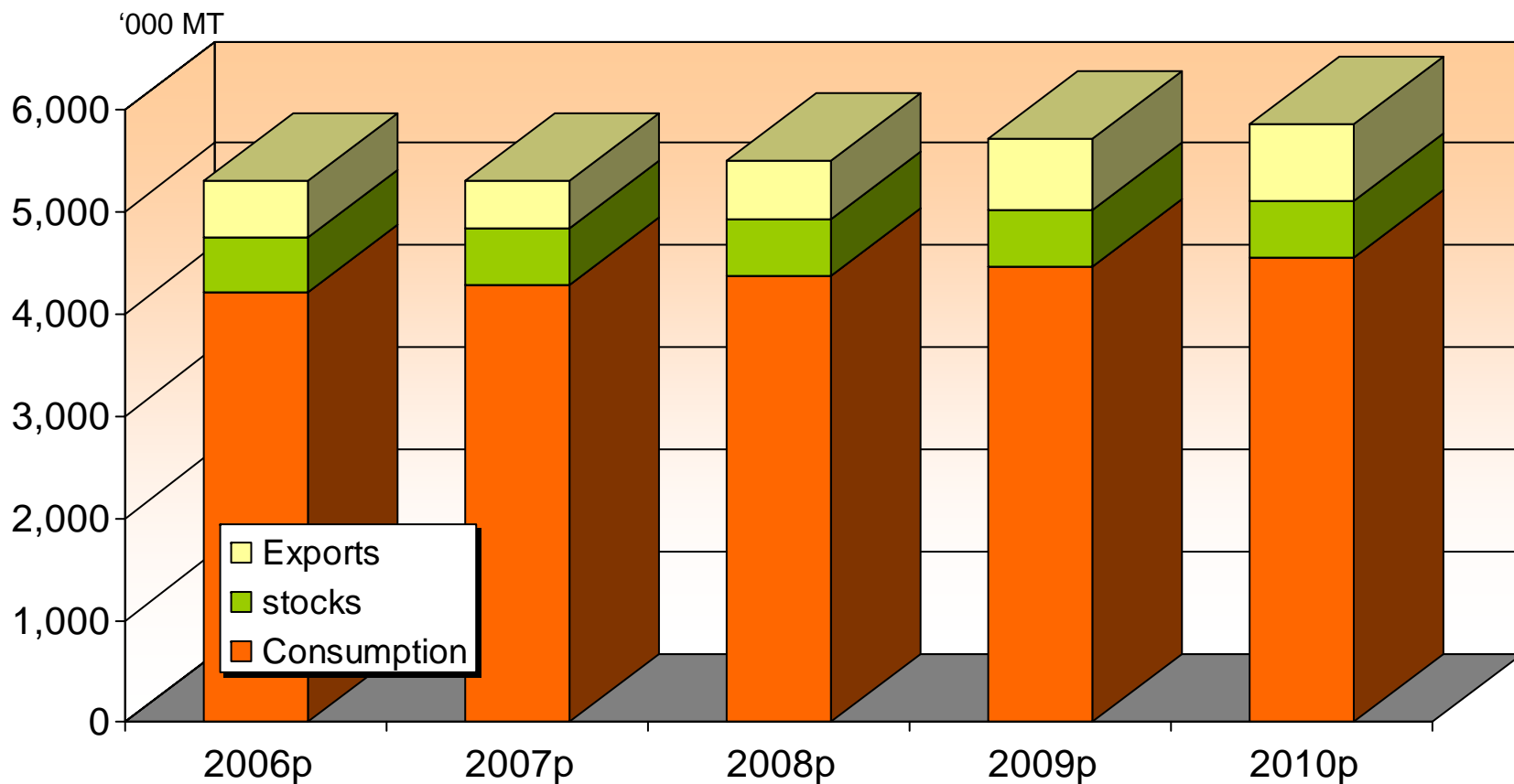


Source: World Trade Atlas

By the end of the decade Mexico will be looking to export at least 750,000 MT to maintain price stability on the domestic market



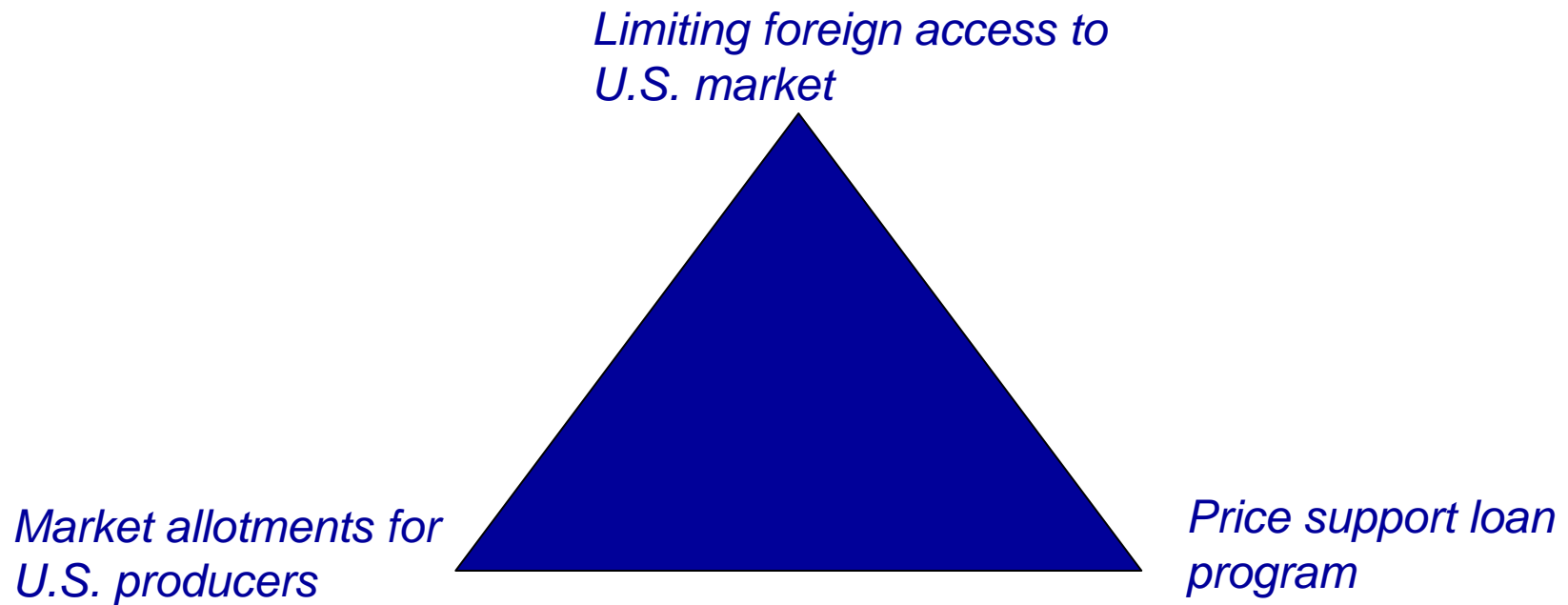
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The U.S. sugar policy revolves around three instruments, with market access playing a key role



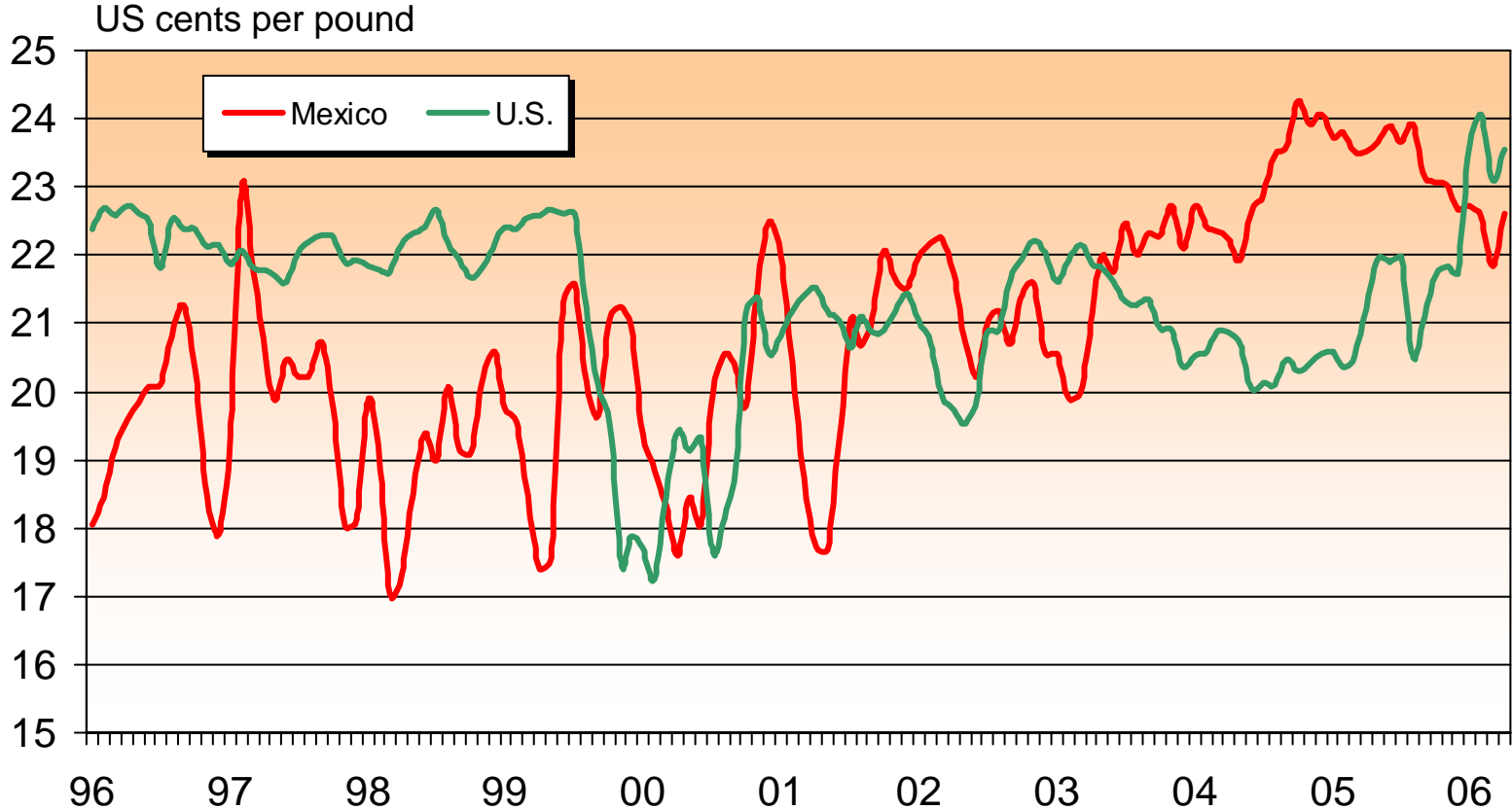
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Mexican and U.S. prices for raw sugar although reflecting different market and political conditions, tend to be relatively close



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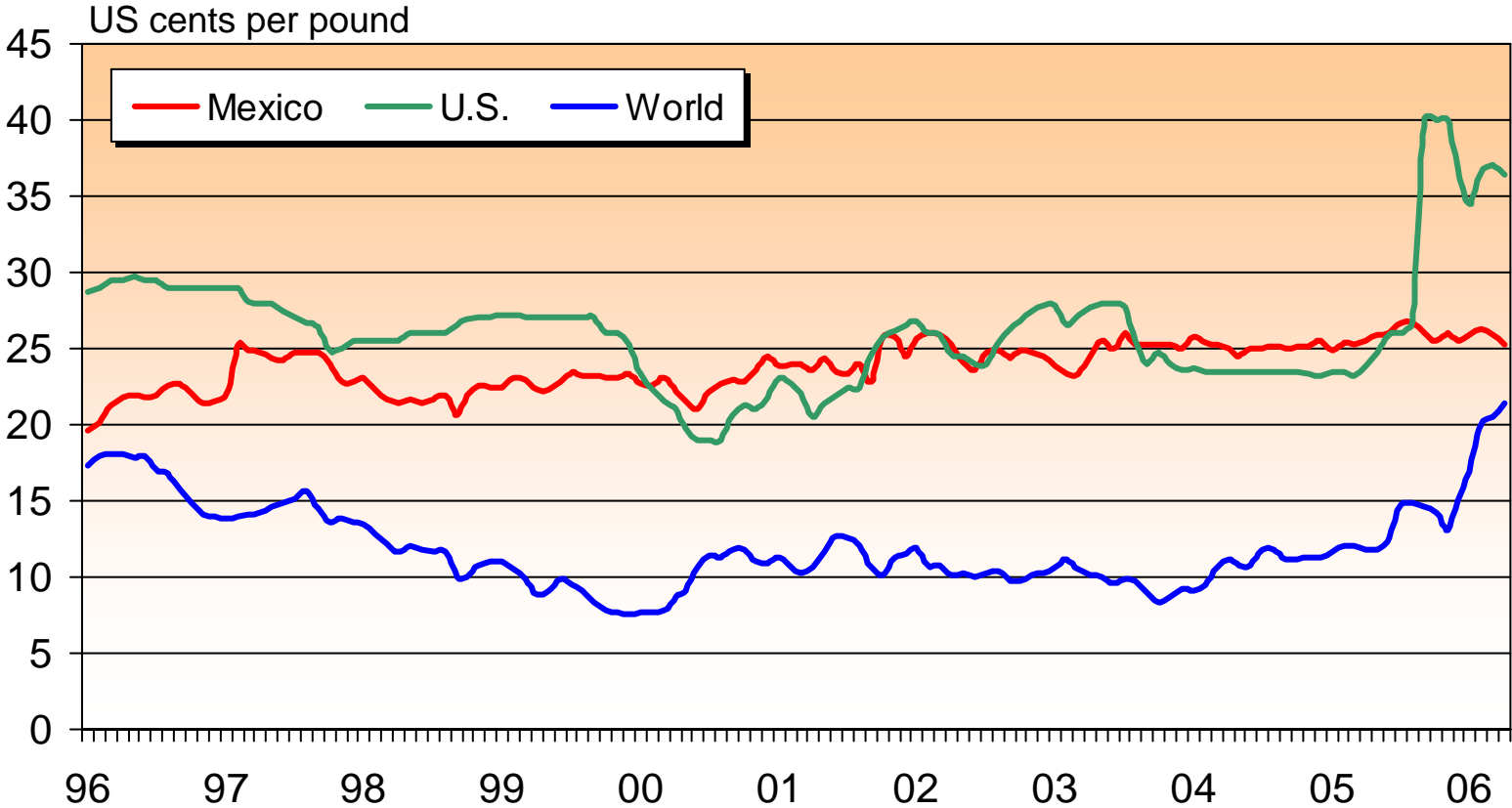


Sources: FORMA, "estándar" for Mexico, USDA for the U.S.

Mexican and U.S. prices for refined sugar are above world prices



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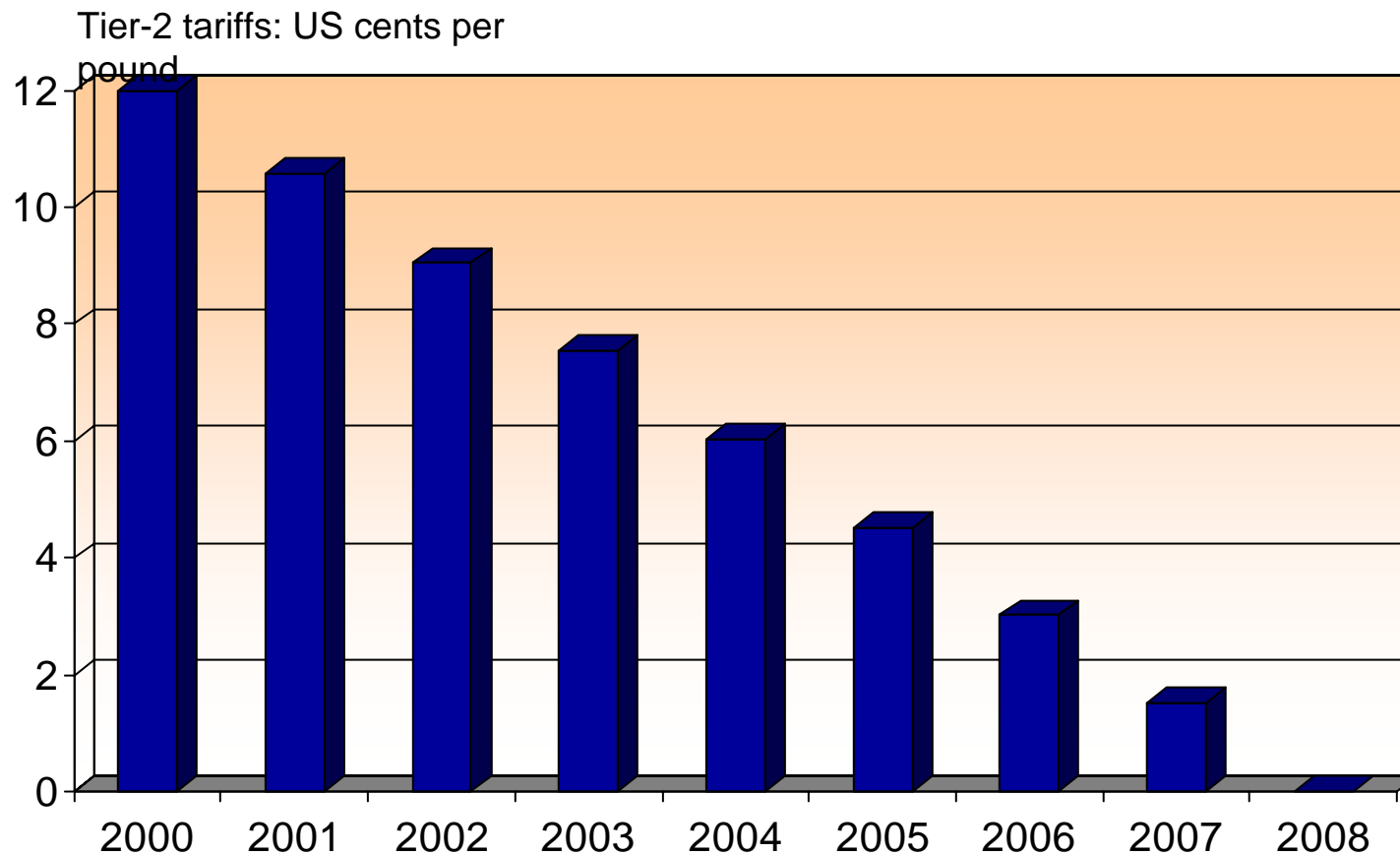


Sources: FORMA for Mexico, USDA for the U.S.

By 2008 the U.S. market is to be opened to Mexican sugar



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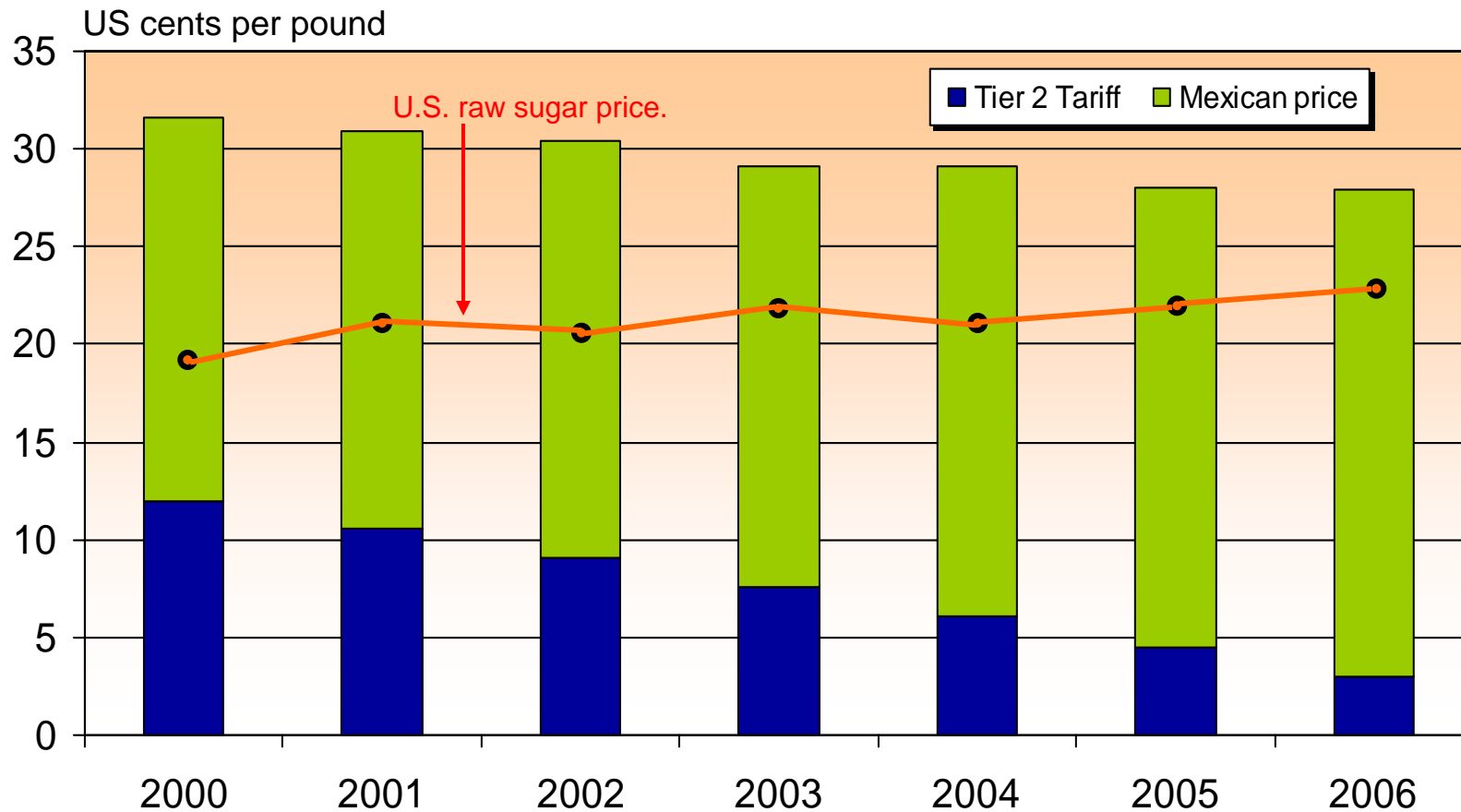


Source: USDA .

By 2008 the U.S. market is to be opened to Mexican sugar



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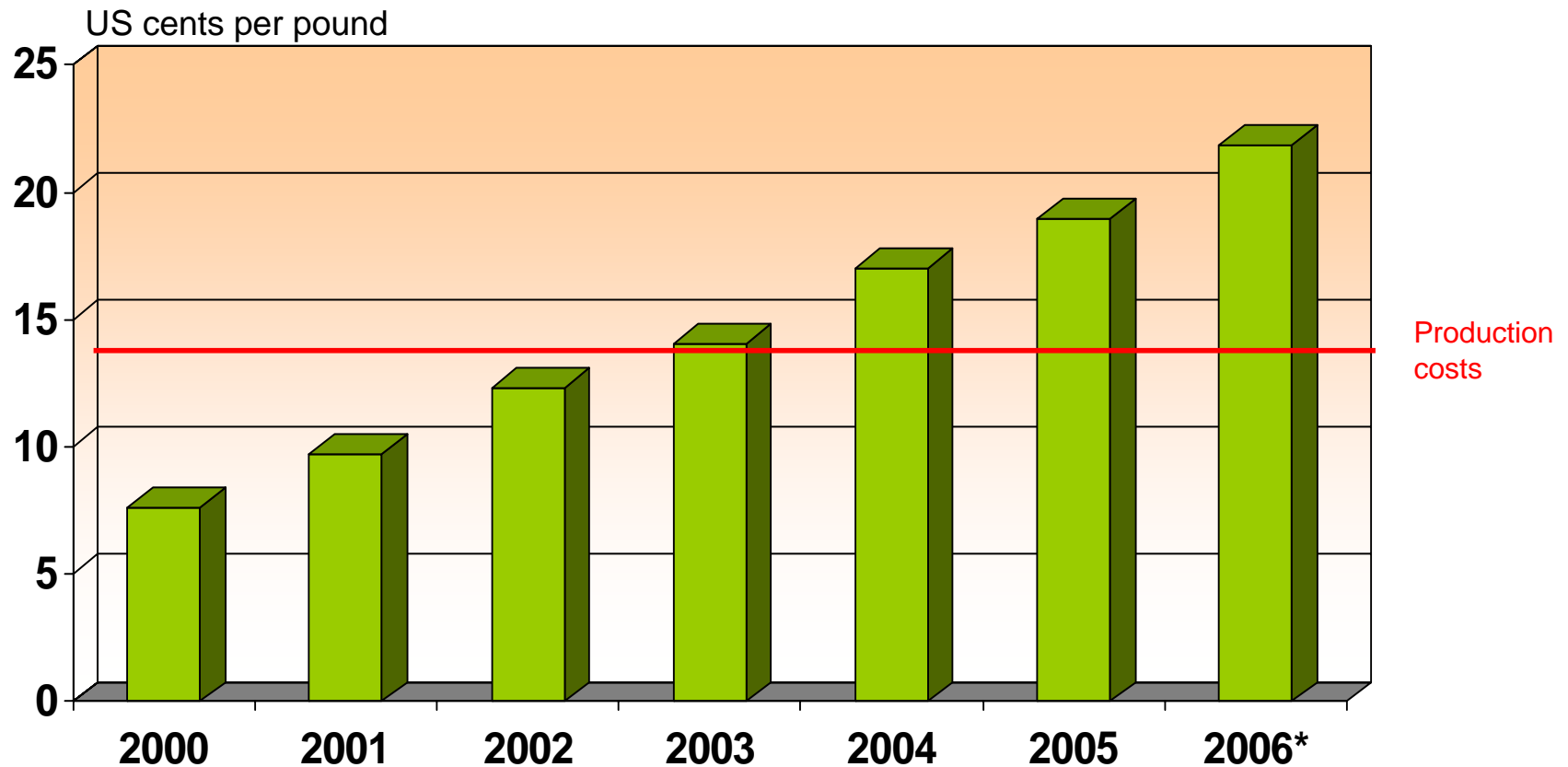


Source: USDA .

Effective price for Mexican sugar producers in the U.S. market: Mexican price less tier two tariff



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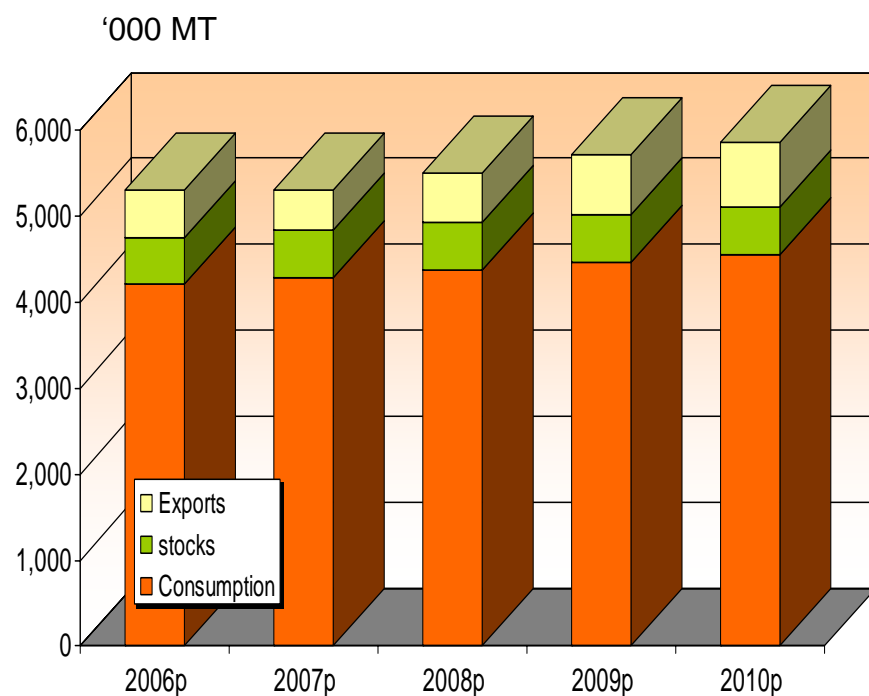
* March prices

Source: USDA for tariff, FORMA for Mexican prices

So what will the U.S. do when facing additional and growing imports from Mexico?



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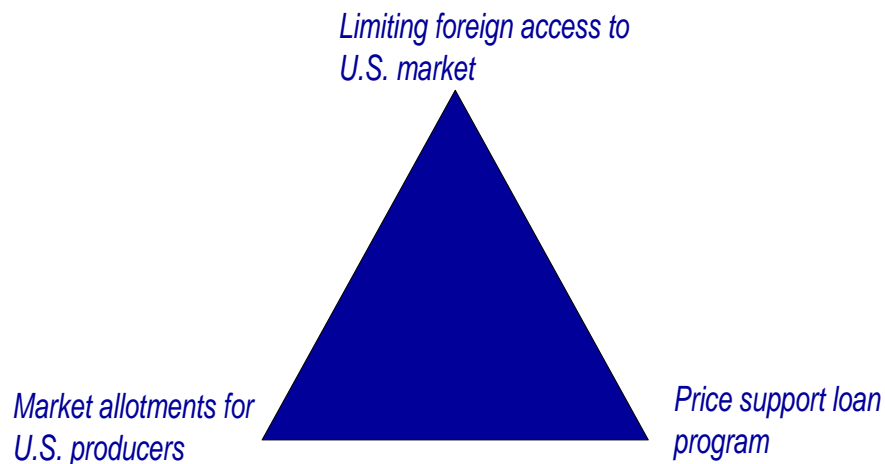


- Renegotiate the NAFTA taking sugar off the table and/or push a NAFTA decision into the future}
- Look for a non-tariff barrier to keep Mexican sugar out of the U.S.
- Accept more Mexican sugar by lowering the quota of third party countries
- Change U.S. sugar policy, looking to a buyout-type scheme

Towards a buyout of sugar



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- Since prices are supported via market access instruments, “buying out” loan program by itself has no impact
- Buying out the market access protection will result in significant outlays for the price support loan program
- Just as there is no such thing as “a little bit pregnant” so you can’t have a partial meaningful buyout of the sugar program

To buyout or not – that is the question



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Yes

- Government intervention is bad, free markets are good
- Makes trade negotiations easier since sugar no longer problem
- Favorable reception by non-sugar agricultural groups with stake in export market
- Time is right – high world sugar prices
- Ethanol have potential to keep sugar price high and divert corn from HFCS
- Cheaper sugar for consumers
- Support domestic candy market

No

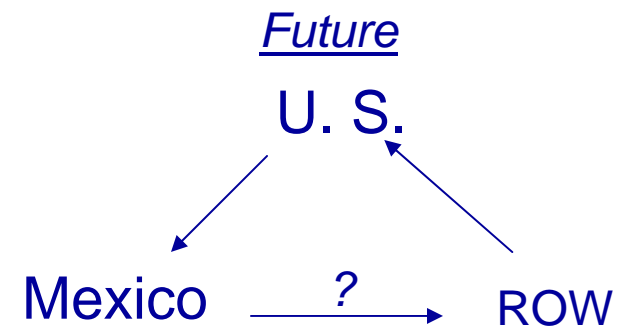
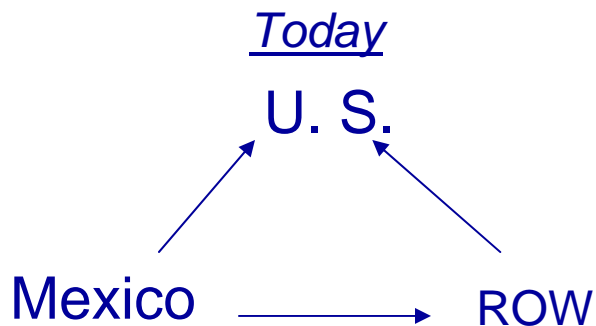
- Sugar policy doesn't cost government anything – budgetary outlay
- Doesn't contemplate HFCS
- Eliminate potential foreign policy instrument (sugar quota)
- U.S. is high cost producer and importer – harm/destroy domestic industry
- If world prices remain high consumers won't get lower prices
- The candy industry will move to lower cost labor options
- No immediate domestic political benefits from sugar industry

And if there is a buyout



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- Central America is happy
- Brazil is happy (something for nothing)
- Canada confectionary market loses advantage
- And Mexico...



- U.S. imports cheap world sugar
- U.S. exports high cost domestic sugar to Mexico
- Tables turned on trade dispute as Mexico claims U.S. not self-sufficient and dumping sugar

Final thought



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Market integration requires that policies should *at least* be analyzed and understood in terms of the impact that they will have on trading partners