Mexican Sugar Policy

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Background

- Changing market conditions:
  - Price volatility in agricultural markets
  - Biofuels: linkages between food and energy markets
- Production and Trade:
  - National Program of Sugarcane Agro-industry (PRONAC)
  - North American Free Trade Agreement (NAFTA)
  - Trade agreements: Central American countries and Trans Pacific Partnership (TTP)
- New institutional framework:
  - Sugarcane Rural Development Sustainable Law (2005)
  - Sugarcane National Committee for Sustainable Rural Development (CONADESUCA) (2008)

Mexico: World 7th largest producer and exporter

Production
World Centrifugal Sugar
1,000 Metric Tons, Raw Value

	2008/09	2012/13	CAGR (%)
Brazil	31,850	37,500	4.2
India	15,950	25,630	12.6
EU-27	14,014	16,390	4.0
China	13,317	14,580	2.3
Thailand	7,200	9,930	8.4
U.S.	6,833	8,006	4.0
Mexico	**5,260**	**6,008**	**3.4**
Russia	3,481	4,850	8.6
Pakistan	3,512	4,670	7.4
Australia	4,814	4,300	-2.8
Other	37,657	40,446	1.8
Total	**143,888**	**172,310**	**4.6**

Exports
World Centrifugal Sugar
1,000 Metric Tons, Raw Value

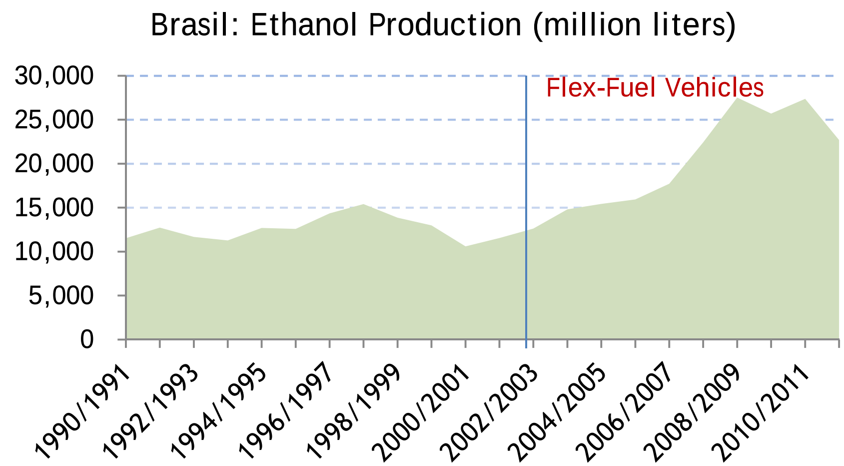
	2008/09	2012/13	CAGR (%)
Brazil	21,550	25,000	3.8
Thailand	5,295	7,500	9.1
Australia	3,522	3,100	-3.1
India	224	2,200	77.0
Guatemala	1,654	1,725	1.1
EU-27	1,332	1,500	3.0
Mexico	**1,378**	**1,372**	**-0.1**
Colombia	584	875	10.6
Russia	200	300	10.7
Pakistan	75	300	41.4
Other	11,150	11,872	1.6
Total	**46,689**	**55,144**	**4.2**

Source: Sugar: World Market and Trade, FAS/USDA, November 2012. CAGR: Compound Annual Growth Rate.

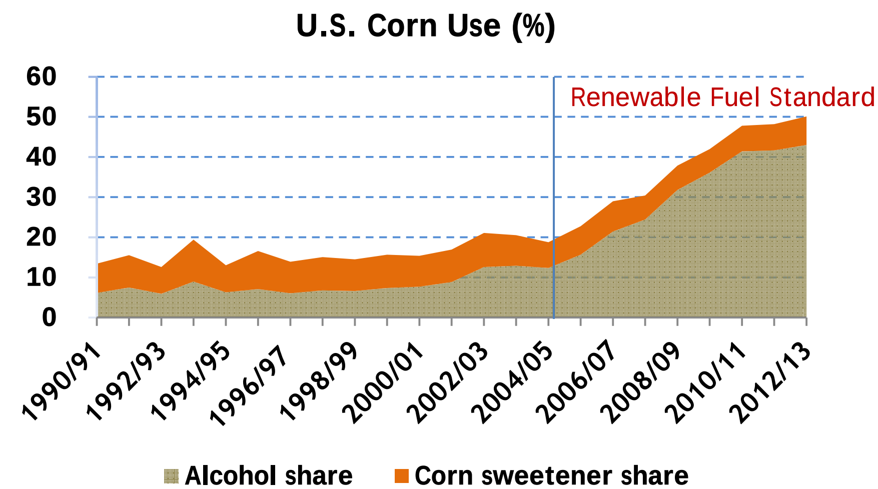
Sugar world exports

Sugar Exports
Annual Change (%)

(%)	Brazil	EU-27	India	Mexico	World
2009/10	12.8	98.7	0.4	-45.5	8.4
2010/11	6.2	-58.0	1,634.7	107.5	9.8
2011/12	-4.5	114.6	-10.4	-36.8	1.0
2012/13	1.4	-37.2	-37.1	39.3	-1.8



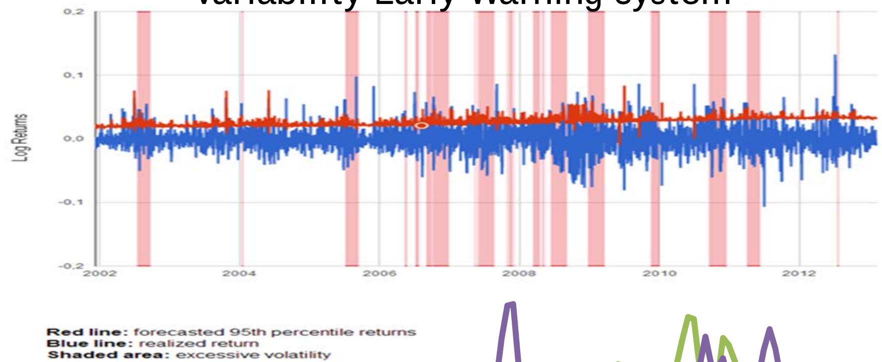
- New technologies and biofuel mandates
- Climate conditions
- Consumption in emerging countries

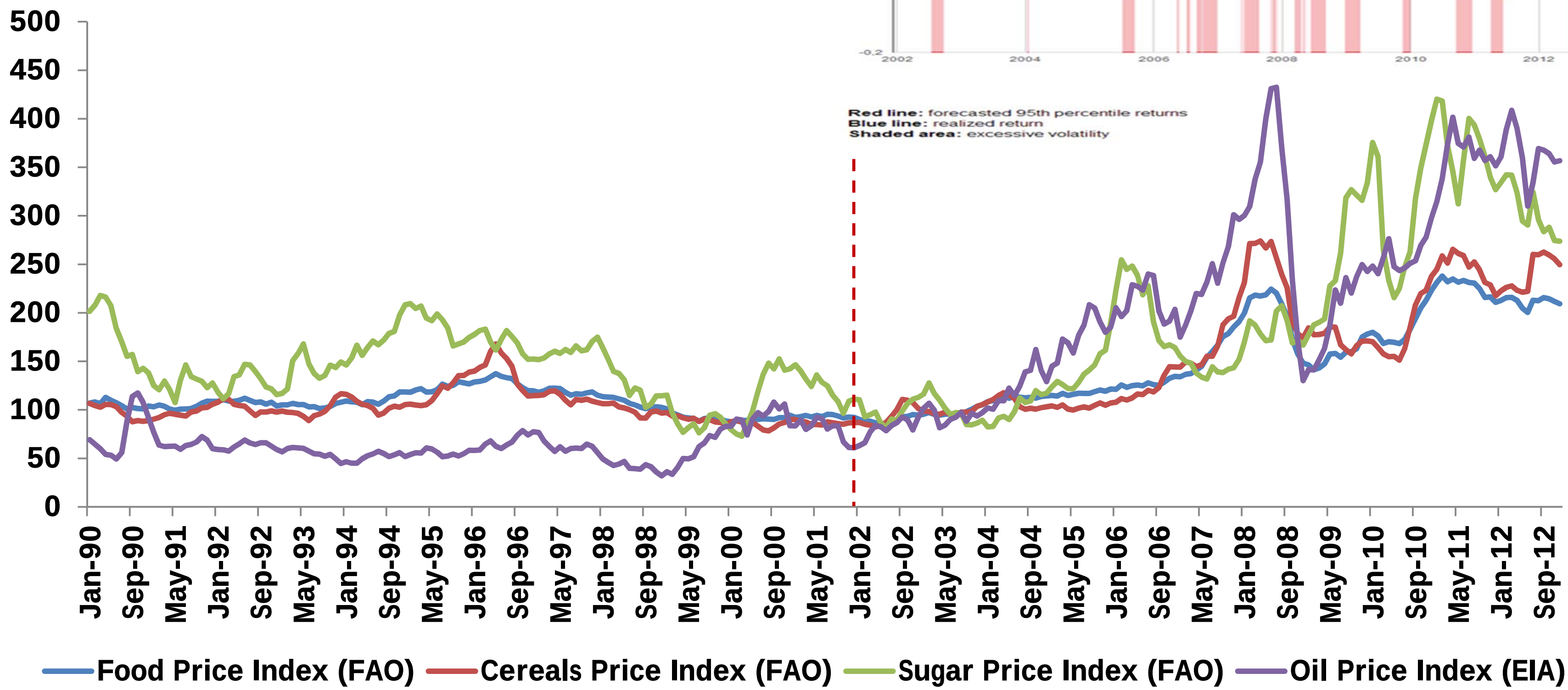


Food and oil price index
(2002-2004 = 100)

- Increasing price volatility in commodity markets

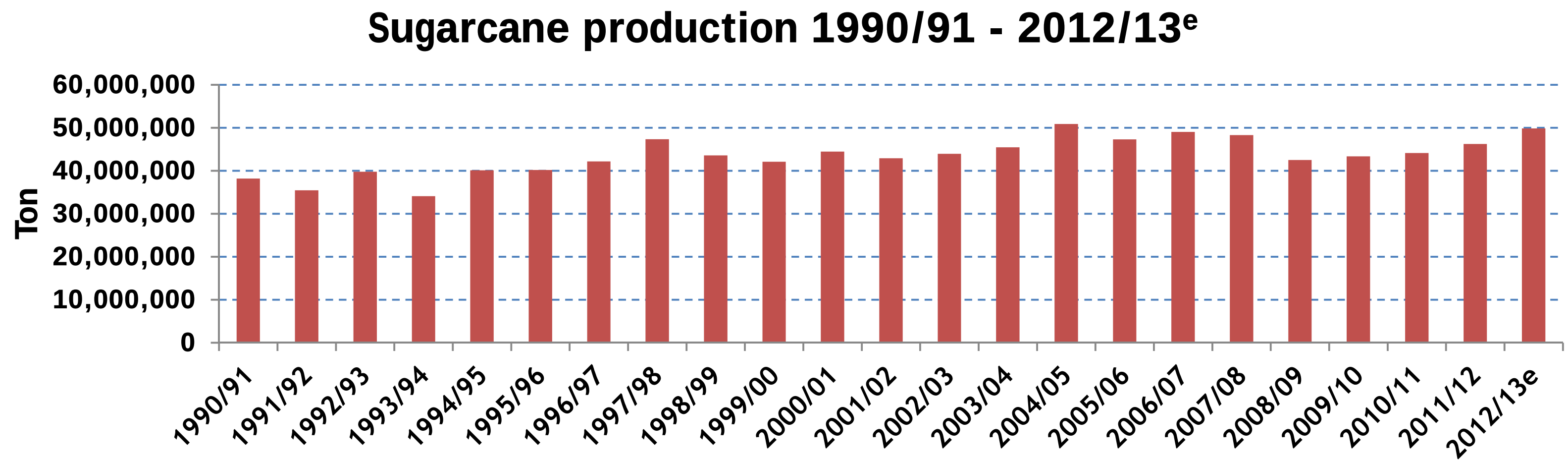
IFPRI Maize Excessive Food Price Variability Early Warning System

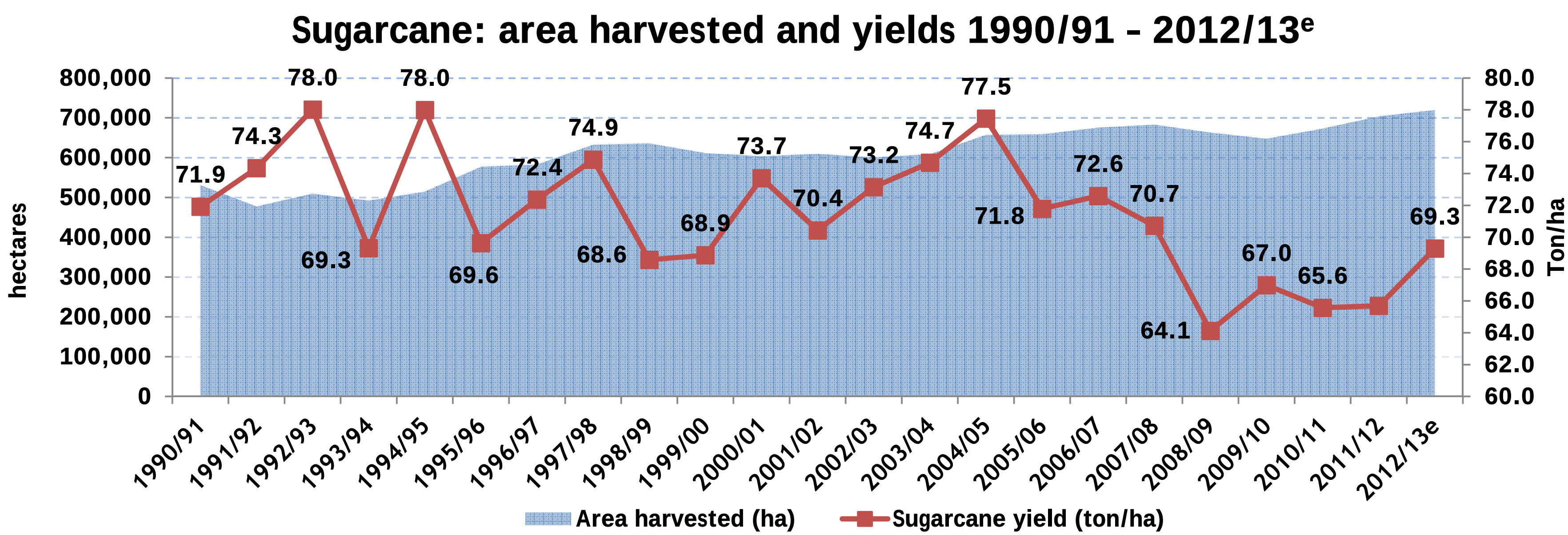




Source: FAO and Energy International Agency (Index Prices) and IFPRI (Price variability).

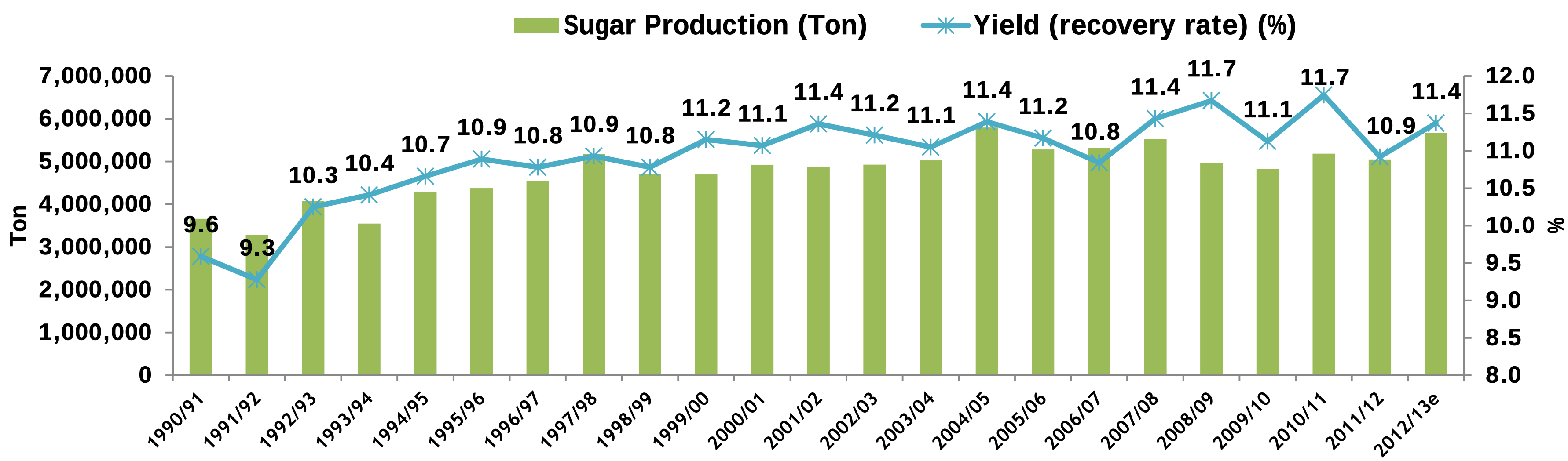
Mexico: Sugarcane production



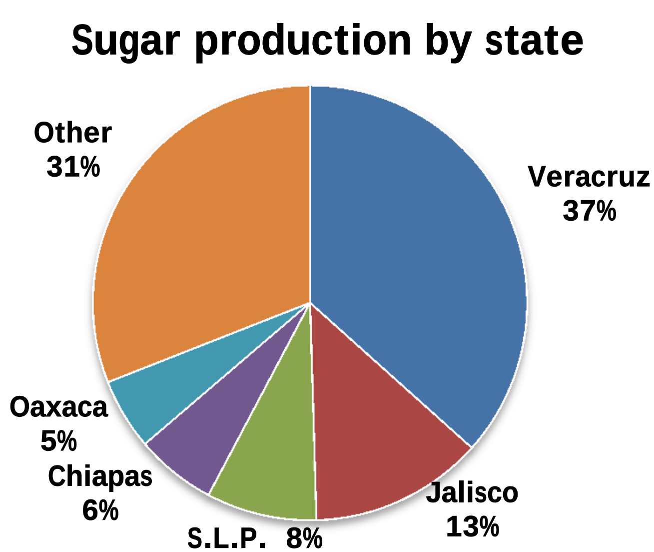


Source: CONADESUCA. e/ estimated.

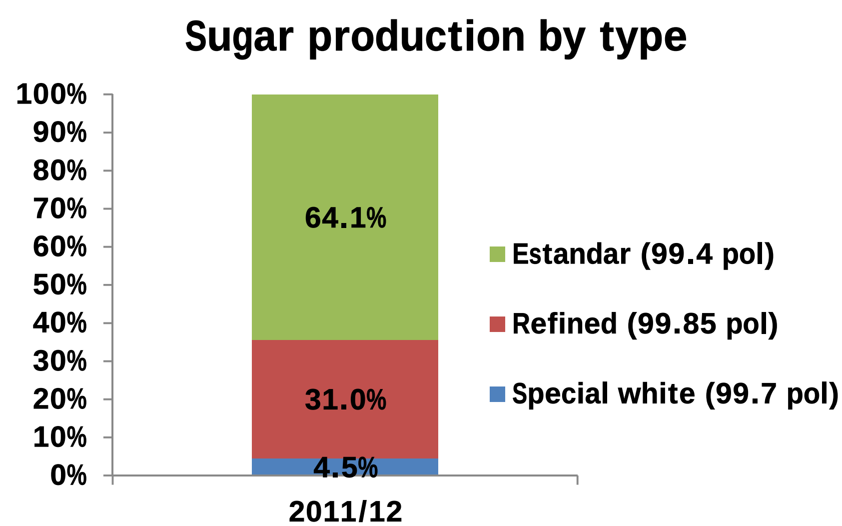
Mexico: Sugar production



Sugar production by state



Sugar production by type



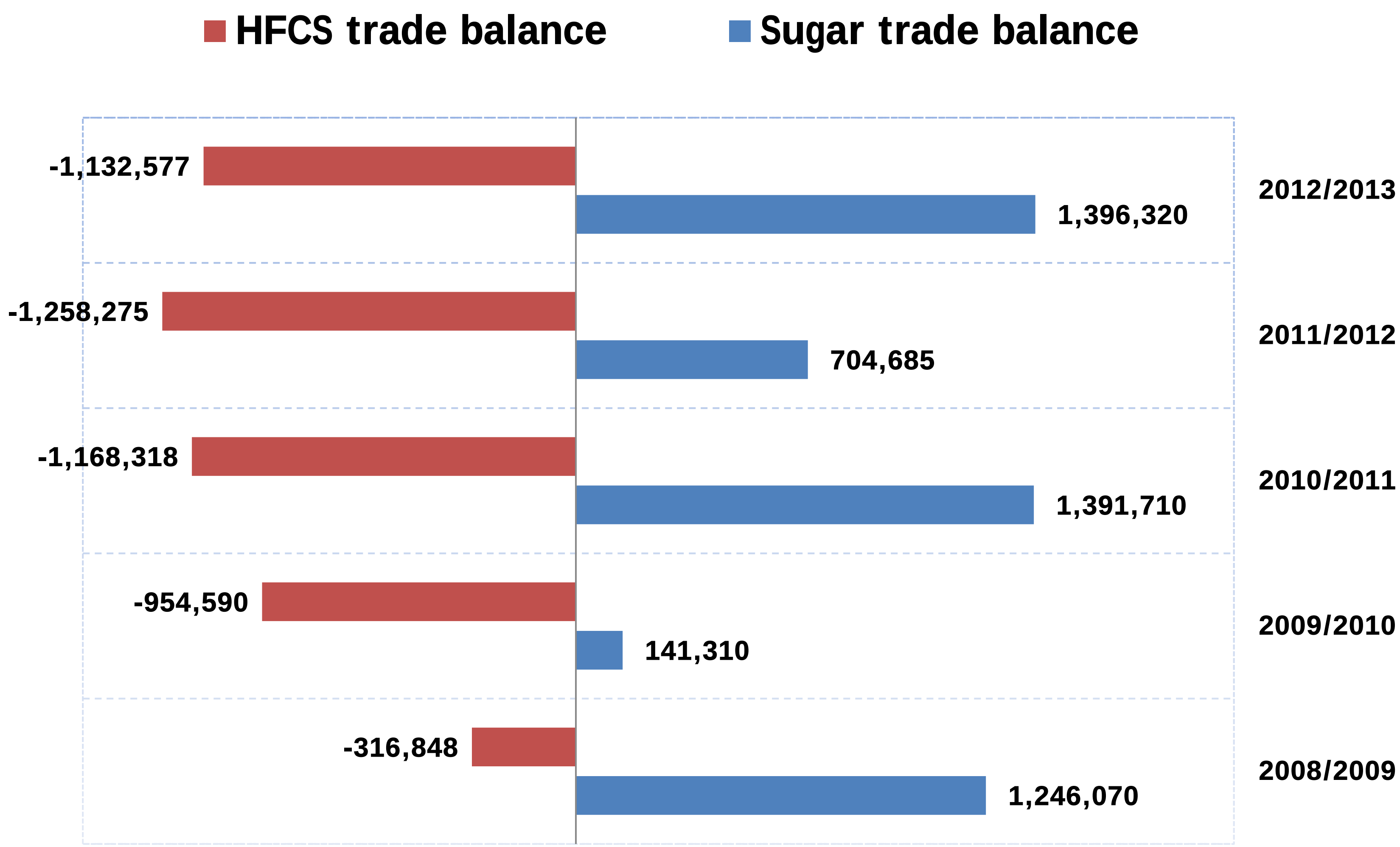
Source: CONADESUCA. e/ estimated.

Mexico: Sweeteners Balance (tons)

Marketing year	2008/09	2009/10	2010/11	2011/12	2012/13 e/	2012/13 vs. 2008/09 CAGR (%)
Total Supply	**7,552,894**	**7,461,291**	**7,868,104**	**7,804,467**	**8,260,306**	2.3
Beginning Stocks	1,864,446	587,895	918,099	759,906	957,809	
Production	5,324,162	5,288,659	5,650,295	5,525,290	6,130,442	3.6
Imports	364,286	1,585,198	1,299,710	1,519,271	1,172,055	33.9
Total Demand	**6,964,999**	**6,543,192**	**7,108,198**	**6,838,873**	**7,211,269**	0.9
Exports	1,293,509	771,918	1,523,101	965,681	1,435,798	2.6
Consumption	5,671,490	5,771,274	5,585,097	5,873,192	5,775,471	0.5
Final Stocks	587,895	918,099	759,906	965,593	1,049,037	

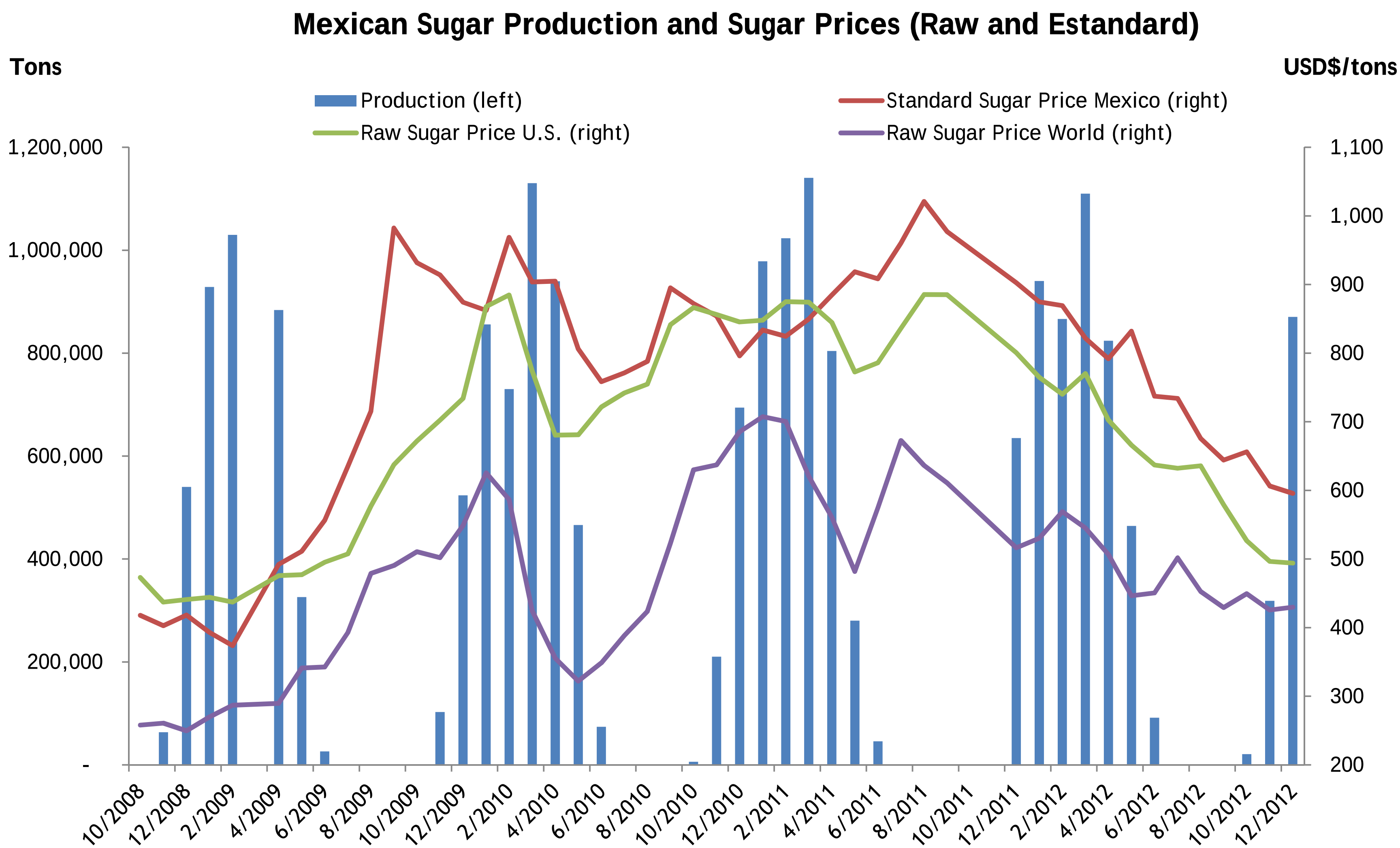
Source: CONADESUCA Sweeteners Balance e/ estimated.

Mexico: Sugar & HFCS trade balance (ton)



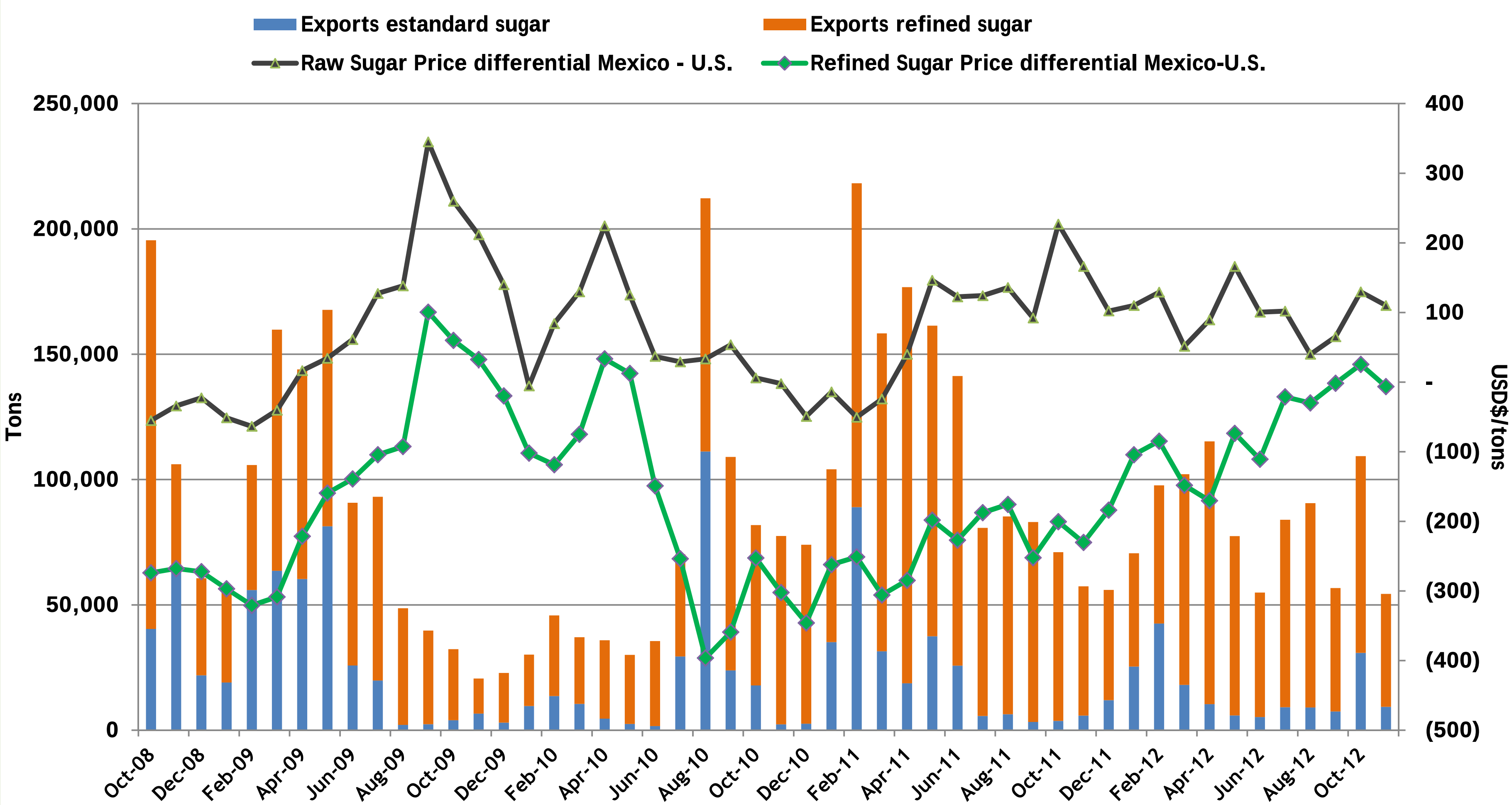
Source: CONADESUCA. e/ estimated. HFCS (tons, dry weight)

Mexico: Sugar market

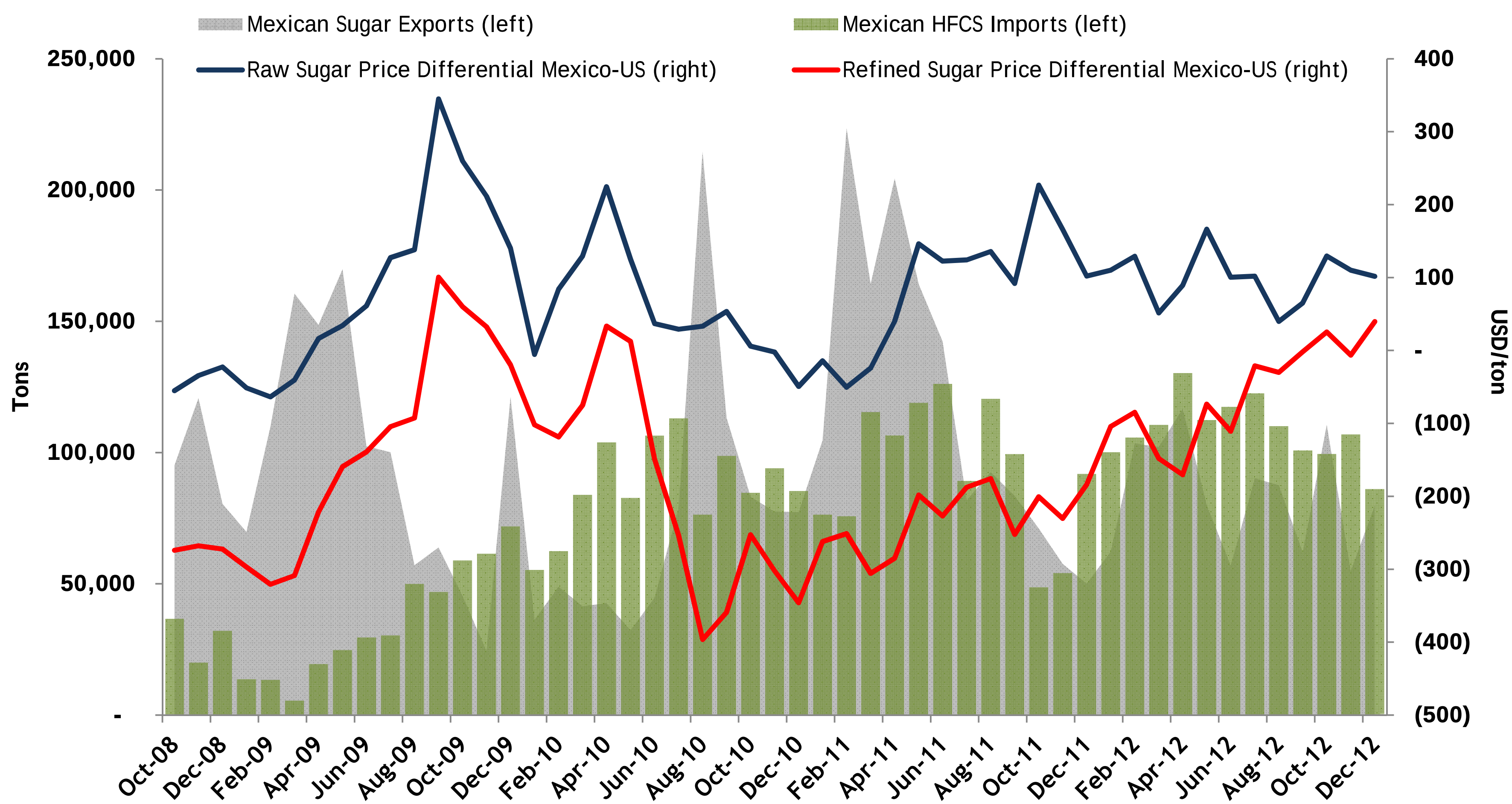


Source: CONADESUCA Sweeteners Balance and Ministry of Economy.

Mexico: Sugar market by type of sugar



Mexico: Sugar exports, HFCS imports and sugar price differentials



Source: CONADESUCA Sweeteners Balance, Ministry of Economy and USDA.

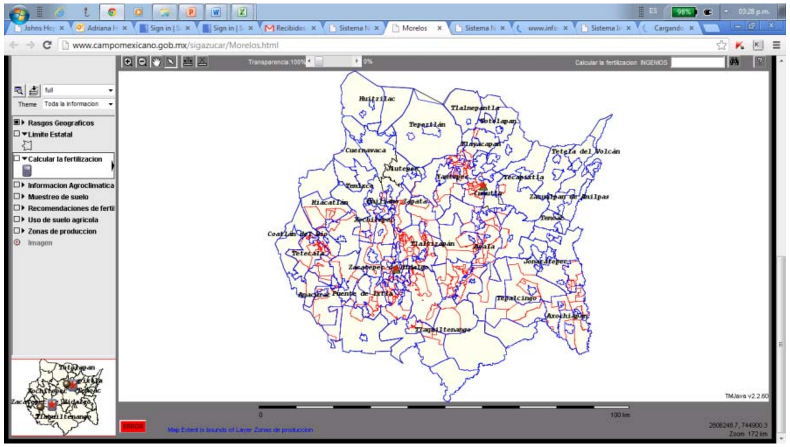
Mexico – U.S. Comparative sugar policy

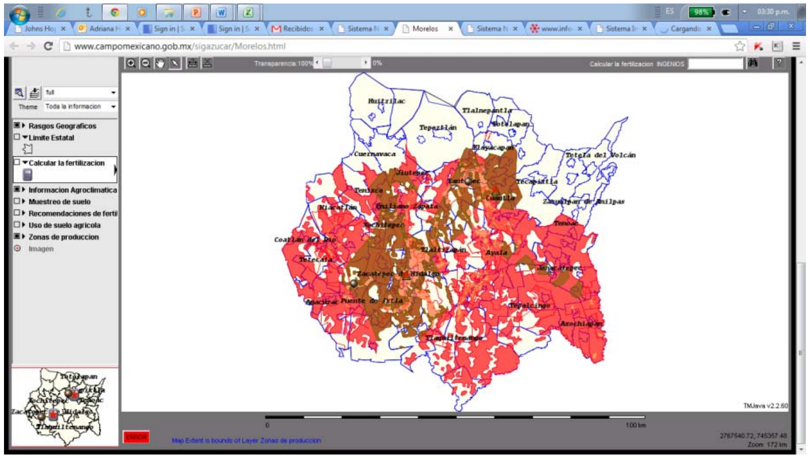
MEASURES	MEXICO	U.S.
Legal Framework	Sugar Law: Ley de Desarrollo Rural Sustentable para la Caña de Azúcar (LDRSCA) (2005). • **<u>CONADESUCA (Executive Committee)</u>** with the participation of Federal Government, producers and industry (mills).	Food, Conservation and Energy Act 2008-2012 (Farm Bill) • Federal policy. • Participation of sugar producers and industry in the discussion of the Farm Bill.
Price support	• Market reference price for sugarcane (weight price of the domestic and export sugar markets). • **<u>No supply control.</u>**	• **Loan rates for raw cane sugar and refined beet sugar**. • Marketing allotments (85% of U.S. sugar consumption). • No fiscal cost for the loan rate program.
Productivity	National Program of Sugarcane Agro-industry (PRONAC 2007-2012) • Increase sugarcane yields. • Sugar Research Institute (proposal).	Farm Bill (2008-2012) • National research (no specific institute for sugar).

US – Mexico Comparative sugar policy

MEASURES	MEXICO	U.S.
Trade policy	**North American Free Trade Agreement (NAFTA) (Full implemented)** **Trans-Pacific Partnership Agreement (TPP) (in negotiations)**	
	• WTO TRQs for Sugar Containing Products. • Additional TRQs to balance the market. Criteria defined by the Ministry of Trade (in consultation with Ministry of Agriculture and CONADESUCA). • FTAs: Central American countries have preferential access when Mexico imports from third countries.	• WTO TRQs (minimum access). • Additional TRQs to "meet domestic demand at reasonable prices". Criteria defined in the Farm Bill. • FTAs: DR-CAFTA, Chile, Peru, Panama and Colombia, but subject to the condition of "net exporter."
Biofuels & Energy	• Biofuel Law. • Non-commercial production (ethanol). • Co-generation.	• Option to use sugarcane to produce bioethanol. • Corn-base production of ethanol. Potential effect on HFCS production and exports.

National Program of Sugarcane Agro-industry (PRONAC)

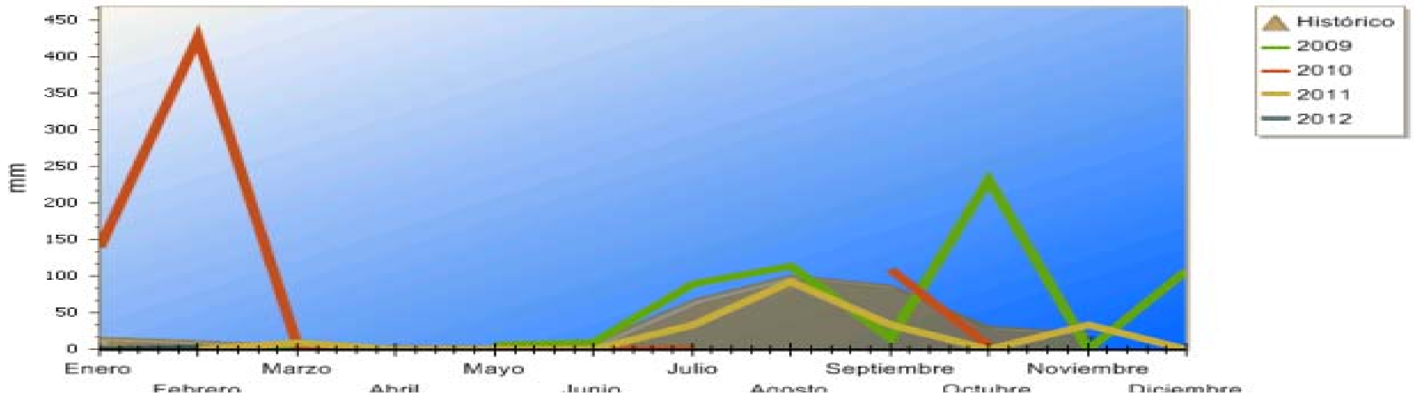




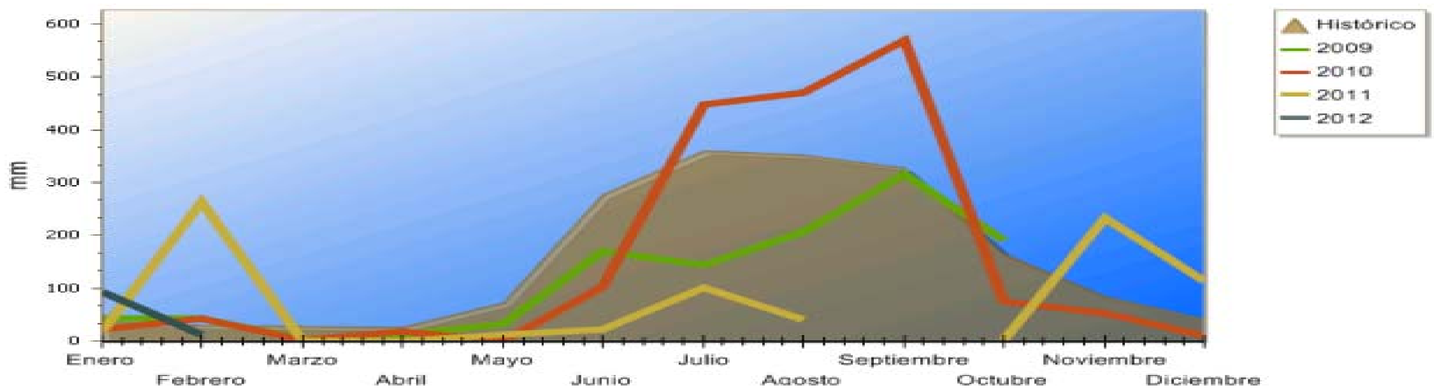
- Technologies to improve the decision-making process.
  - Soil fertility and fertilizers
  - Sugarcane production and mills location.
  - Weather
  - Water

PRONAC
Precipitation 2009-2012 vs. Average 2000-2012

State of Sinaloa
Mill: Los Mochis
Precipitation 2009 - 2012 vs. Average 2000-2012

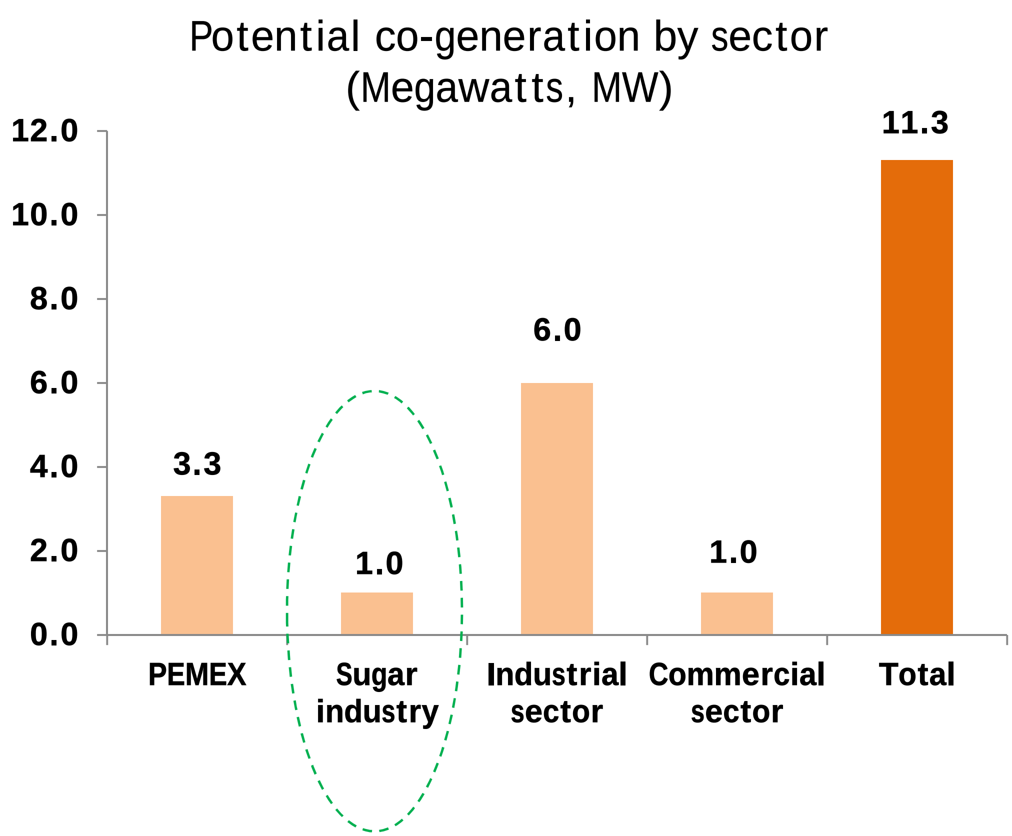


State of Veracruz
Mills: San Cristóbal y San Gabriel
Precipitation 2009 - 2012 vs. Average 2000-2012



Source: CONADESUCA,
http://www.conadesuca.gob.mx/reportesdeinteres/graficasdeprecipitacion/07%20graficas_Lluvia_inifap_febrero_2012.pdf (accessed February 8, 2013)

Energy: co-generation



- Increasing use of renewables in the power sector
  - The Renewable Energy Development and Financing for Energy Transition Law (2008)
- Potential of the sugar industry co-generation capacity: 1.0 MW
- Financing
- Regulation
- Investment

Source: National Strategy for the Energy Transition and Sustentability of Energy, 2012, http://www.sener.gob.mx/res/0/ENTE_2012.pdf

Future challenges: PRONAC 2013-2018?

- NAFTA full integration and TPP negotiations
- Price volatility
- Sustainable production and climate change
- Biofuel policy
- Changes in consumer preferences